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Dr Milinth P
Associate Professor, PG & Research Department of Commerce, Farook College (Autonomous), University of Calicut, Kerala, India

Dr Abdusslam PK
Assistant Professor, Department of Management Studies, Farook College (Autonomous), University of Calicut, Kerala, India

Corresponding Author:
Dr Milinth P
Associate Professor, PG & Research Department of Commerce, Farook College (Autonomous), University of Calicut, Kerala, India.

The new tax regime: A shift in the tax landscape for salaried individuals in India

Dr Milinth P and Abdusslam PK

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Abstract
Every country relies on a structured system to manage how taxes are collected and monitored. In India, this system, the tax regime, outlines the legal and procedural framework for assessing income, determining tax liability and ensuring timely collection and compliance. In Budget 2025, the Government announced revised income tax slabs under the new tax regime, under which incomes up to ₹4 lakh are not subject to tax. At the same time, the old tax regime has been retained in its original form. This development forms the basis for analyzing the comparative benefits of both regimes. The study examines tax liability across varying income levels and evaluates the impact of available deductions and rebates. Findings reveal that the new tax regime, with its simplified structure and lower slab rates, is more beneficial for a majority of taxpayers, especially those with limited deductions. The analysis highlights the growing relevance of the new regime in ensuring tax efficiency and simplifying compliance for individual taxpayers.

Keywords: Tax regime, tax liability, tax efficiency

Introduction
A tax regime refers to the framework of laws, rules, and procedures established by a government to manage the assessment, collection, and administration of taxes. This includes the methods for determining the tax liability of individuals and entities In Budget 2020, the Government of India introduced a new personal income tax regime offering lower tax rates and additional slabs for individual taxpayers. Taxpayers were given the option to choose between the new regime and the old regime based on their financial situation and planning preferences. Later, in the Union Budget 2023-24, further changes were made to the new tax regime; it was declared the default tax option. In Budget 2025, the government introduced revised income tax slabs and as per the new tax regime applicable for the assessment year 2026-27, incomes up to ₹4 lakh are now completely tax-free. The old tax regime remains unchanged, retaining all the exemptions and deductions. In addition, under Section 87A of the Income Tax Act, a resident individual is entitled to claim a tax rebate, subject to prescribed income limits.

Objectives
The primary objective of this study is to examine which tax regime, old or new, is more beneficial under different financial scenarios, particularly for salaried individuals for the assessment year 2026-27. The analysis compares both regimes in terms of tax liability, available deductions, exemptions, and overall savings. By evaluating typical income patterns and applying current tax provisions, the study provides practical insights into which regime offers better financial outcomes for salaried taxpayers, helping them make more informed tax-related decisions.

Review of literature
Bharad and Sharma (2024) [1] explored legal and perceptual differences between the new and old tax regimes under the Income Tax Act, 1961, in Ahmedabad. Using survey data from individuals, they found that demographic factors, legal awareness, and perceived benefits significantly influence regime preference. The study emphasizes the need for simplified laws and improved taxpayer education to enhance compliance and understanding, contributing valuable insights to tax policy and individual financial behavior in India.

Ojha and Agarwala (2023) [2] examined the impact of India's new tax regime introduced in the Union Budget 2023, highlighting a 141.67% rise in adoption due to simplified structures and increased rebate limits. The study found that younger, low-income taxpayers preferred the new regime for its ease, while older, high-income individuals favored the old system for its exemptions. These findings suggest demographic and economic factors significantly influence regime preference, calling for more inclusive, targeted tax reforms.

Sudhir Kumar Sah (2023) [5] in his study observed that the old tax regime has been more beneficial for taxpayers who make use of various exemptions and deductions whereas, the new tax regime offers lower tax rates but does not allow most exemptions and deductions, leaving little to no scope for tax planning. This dual system aims to provide flexibility to taxpayers while promoting a simplified tax structure.

Shevate and Pande (2023) [6] analyze salaried individuals' perspectives on India's New Tax Regime, introduced in Budget 2020. The regime shifts focus from saving to spending by offering lower tax rates without deductions. The study highlights the need for strong social security schemes to support this shift. It also explores taxpayers' awareness and decision-making regarding the old versus new regime, aiming to guide informed choices.

Bagul TD (2021) [866] found that the implementation of Budget 2020 brought significant changes to the personal income tax system by introducing an alternative tax regime alongside the existing one. However, many taxpayers found it difficult to decide which regime would be more beneficial for them, especially due to the removal of popular exemptions and deductions in the new regime.

Significance of the study

The recent changes introduced in Budget 2025 represent a significant shift in India's personal income tax structure, especially under the new tax regime. The basic exemption limit has been increased from ₹3 lakh to ₹4 lakh, providing greater relief to individuals in lower income brackets. Additionally, the tax rebate under Section 87A has been enhanced to ₹60,000, effectively exempting individuals with a net taxable income of up to ₹12 lakh from paying any income tax. In this context, the study gains relevance as it explores the practical implications of these changes on different categories of taxpayers, especially salaried and middle-income individuals.

Methodology

This research article adopts a descriptive and analytical methodology. It relies entirely on secondary data, which has been collected from sources such as government budgets, journals, articles and official websites.

Results and Discussion

The old tax structure had fewer tax slabs but was marked by higher tax rates, whereas the new tax regime introduced more income slabs with lower tax rates, offering a simplified and uniform structure aimed at reducing the tax burden for individuals, especially those with moderate incomes.

Table 1 shows the new income tax slab and rates under section 115BAC (New regime) for the Assessment year 2026-27.

Table 1: Income tax rates (New regime) for the AY2026-27

Income tax slab	Income tax rate
Upto ₹ 4,00,000	NIL
₹ 4,00,001 to ₹ 8,00,000	5%
₹ 8,00,001 to ₹ 12,00,000	10%
₹ 12,00,001 to ₹ 16,00,000	15%
₹ 16,00,001 to ₹ 20,00,000	20%
₹ 20,00,001 to ₹ 24,00,000	25%
Above ₹ 24,00,001	30%

Table 2 shows the income tax slab and rates under old regime for the Assessment year 2026-27.

Table 2: Income tax rates (Old regime) for the AY2026-27

Income tax slab	Income tax rate
Upto ₹ 2,50,000*	NIL
₹ 2,50,001 to ₹ 5,00,000	5%
₹ 5,00,001 to ₹ 10,00,000	20%
Above ₹ 10,00,001	30%

*For senior citizen aged 60 years or more but less than 80 years - Upto ₹ 3,00,000

*For super senior citizen aged 80 years or more - Upto ₹ 5,00,000

Rebate for the Assessment Year 2026-27 is as follows:

Under the new tax regime, a resident individual with a taxable income of up to ₹12,00,000 is eligible for a rebate of up to ₹60,000 under Section 87A. In contrast, under the old tax regime, a resident individual with a taxable income of up to ₹5,00,000 can claim a rebate of up to ₹12,500 only.

Scenario 1—where the taxpayer has no income from house property or other sources and no deductions like 80C, 80D or 80TTA

Table 3: Income below ₹ 5,00,001.

	Old Regime	New Regime	Old Regime	New Regime	Old Regime	New Regime
Salary	300000	300000	400000	400000	500000	500000
Standard deduction	50000	75000	50000	75000	50000	75000
Net Salary	250000	225000	350000	325000	450000	425000
Total Income	250000	225000	350000	325000	450000	425000
Tax liability	0	0	5000	0	10000	1250
Rebate 87A	0	0	5000	0	10000	1250
Net tax payable	0	0	0	0	0	0

In both regimes, an individual earning up to ₹5,00,000 pays zero tax. Both regimes give section 87A rebate**,** making net tax zero.

Table 4: Income below ₹ 12,00,001

	Old regime	New regime	Old regime	New regime	Old regime	New regime	Old regime	New regime
Salary	600000	600000	800000	800000	1000000	1000000	1200000	1200000
Standard deduction	50000	75000	50000	75000	50000	75000	50000	75000
Net Salary	550000	525000	750000	725000	950000	925000	1150000	1125000
Total Income	550000	525000	750000	725000	950000	925000	1150000	1125000
Tax liability	22500	6250	62500	16250	102500	32500	157500	52500
Rebate 87A	0	6250	0	16250	0	32500	0	52500
Net tax payable	22500	0	62500	0	102500	0	157500	0

For individuals earning up to ₹12,00,000 annually**,** the new tax regime is clearly more advantageous**,** as it results in zero tax liability due to the enhanced Section 87A rebate**.**

The old regime, on the other hand, results in a growing tax burden as income increases and no rebate is available beyond ₹5,00,000.

Table 5: Income above ₹ 12,00,001.

	Old regime	New regime	Old regime	New regime	Old regime	New regime
Salary	1500000	1500000	1800000	1800000	2000000	2000000
Standard deduction	50000	75000	50000	75000	50000	75000
Net Salary	1450000	1425000	1750000	1725000	1950000	1925000
Total Income	1450000	1425000	1750000	1725000	1950000	1925000
Tax liability	247500	93750	337500	145000	397500	185000
Rebate 87A	0	0	0	0	0	0
Net tax payable	247500	93750	337500	145000	397500	185000

At these income levels, the Section 87A rebate is not available in either regime. Tax is computed purely based on slab rates. For salaried individuals earning between ₹15,00,000 and ₹20,00,000, the new tax regime is clearly more beneficial due to lower slab rates in the new regime and higher standard deduction.

Scenario 2 — where the taxpayer has income from house property and other sources and deductions like 80C, 80D or 80TTA

Table 6: Income below ₹ 5, 00,001.

	Old regime	New regime	Old regime	New regime	Old regime	New regime
Salary	300000	300000	400000	400000	500000	500000
Standard deduction	50000	75000	50000	75000	50000	75000
Net Salary	250000	225000	350000	325000	450000	425000
Interest on Housing loan	-50000	-	-50000	-	-50000	-
Bank interest	10000	10000	10000	10000	10000	10000
Gross Total Income	210000	235000	310000	335000	410000	435000
80C	50000	-	50000	-	50000	-
80D	5000	-	5000	-	5000	-
80TTA	10000	-	10000	-	10000	-
Total Income	145000	235000	245000	335000	345000	435000
Tax liability	0	0	0	0	4750	1750
Rebate 87A	0	0	0	0	4750	1750
Net tax payable	0	0	0	0	0	0

If the taxpayer claims deductions like home loan interest, 80C, and 80TTA, the old regime reduces taxable income more effectively. However, due to the generous Section 87A rebate, the net tax payable is zero in both regimes for incomes up to ₹5,00,000. Old regime offers better tax planning opportunities, but in terms of actual tax outflow, both regimes are equally effective at these income levels.

Table 7: Income below ₹ 12,00,001.

	Old regime	New regime	Old regime	New regime	Old regime	New regime	Old regime	New regime
Salary	600000	600000	800000	800000	1000000	1000000	1200000	1200000
Standard deduction	50000	75000	50000	75000	50000	75000	50000	75000
Net Salary	550000	525000	750000	725000	950000	925000	1150000	1125000
Intrest on Housing loan	-100000	-	-150000	-	-200000	-	-200000	-
Bank interest	10000	10000	10000	10000	10000	10000	10000	10000
Gross Total Income	460000	535000	610000	735000	760000	935000	960000	1135000
80C	150000	-	150000	-	150000	-	150000	-
80D	5000	-	5000	-	5000	-	5000	-
80TTA	10000	-	10000	-	10000	-	10000	-
Total Income	295000	535000	445000	735000	595000	935000	795000	1135000
Tax liability	2250	6750	9750	16750	31500	33500	71500	53500
Rebate 87A	2250	6750	9750	16750	0	33500	0	53500
Net tax payable	0	0	0	0	31500	0	71500	0

For incomes up to ₹8,00,000**,** both regimes result in zero tax if full deductions under section 80C, housing loan, etc. are claimed. For incomes above ₹8,00,000**,** the new regime is significantly better**,** even without deductions, due to the enhanced ₹60,000 rebate under Section 87A**.**

Table 8: Income above ₹ 12,00,001.

	Old regime	New regime	Old regime	New regime	Old regime	New regime
Salary	1500000	1500000	1800000	1800000	2000000	2000000
Standard deduction	50000	75000	50000	75000	50000	75000
Net Salary	1450000	1425000	1750000	1725000	1950000	1925000
Intrest on Housing loan	-200000	-	-200000	-	-200000	-
Bank interest	10000	10000	10000	10000	10000	10000
Gross Total Income	1260000	1435000	1560000	1735000	1760000	1935000
80C	150000	-	150000	-	150000	-
80D	5000	-	5000	-	5000	-
80TTA	10000	-	10000	-	10000	-
Total Income	1095000	1435000	1395000	1735000	1595000	1935000
Tax liability	141000	95250	231000	147000	291000	187000
Rebate 87A	0	0	0	0	0	0
Net tax payable	141000	95250	231000	147000	291000	187000

As income exceeds ₹12,00,000, Section 87A rebate is not available under either regime. The higher slab rates under the old regime offset much of the benefit, resulting in higher tax liability overall. Despite higher taxable income, the lower tax slab rates under the new regime lead to substantially lower tax**.**

Opting for the new regime is clearly more tax-efficient in this income range, unless the taxpayer is claiming exceptionally high deductions which are uncommon.

Conclusion

The comparative analysis of the old and new tax regimes reveals that the new tax regime, introduced with simplified slab rates and minimal deductions, is generally more beneficial for taxpayers across most income levels, especially for those with limited deductions. For incomes up to ₹5,00,000, both regimes result in zero tax liability due to the Section 87A rebate. However, as income rises, especially beyond ₹8,00,000 and ₹12,00,000, the new regime becomes increasingly advantageous due to its lower slab rates and enhanced rebate provisions. Even when deductions under sections like 80C, 80D, and 80TTA are considered, the new regime often results in lower tax outflow. Thus, for the majority of salaried individuals and those with moderate deductions, the new regime offers greater tax efficiency. The findings underscore the importance of evaluating personal income structure and available deductions before choosing the appropriate tax regime.

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