

## Old Tax Regime vs. New Tax Regime: A tricky choice for Salaried Individual Taxpayers

By

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### Abstract

On February, 2023, Finance Minister Nirmala Sitaraman had proposed varied steps to revamp the New Tax Regime for the financial year 2023-2024 corresponding to Assessment year 2024-2025. This article aims to assess the impact of these changes on tax liability of Individual Taxpayers if they opt for New Tax Regime. With the introduction of Standard Deduction and other exemptions, the New Tax Regime obviously looks more attractive in comparison to the previous New Tax Regime. New modified tax regime benefits mostly the salaried individual taxpayers with incomes more than Rs 5 lakhs.

### Introduction

#### *Proposed changes in Tax Rates:*

In the tabled Budget of 2023, the finance minister proposed many changes in the new tax regime which was introduced for the first time w.e.f April, 2020. The proposed changes announced in respect of New Tax Regime are:

Up to 300000	Nil
Above 300000 - 600000	5%
Above 600000- 900000	10%
Above 900000- 1200000	15%
Above 1200000 - 1500000	20%
Above 1500000	30%

1. New Tax Regime will be the default Tax Regime for all taxpayers.
2. New Tax Regime consists of six slabs which are the shown below:
3. Standard Deduction of Rs 50000 was introduced for the first time in new tax regime for salaried employee. Deduction in respect of family pension u/s- 57(iia) upto 15000 was allowed in New Tax Regime.
4. Finance minister also proposed tax rebate u/s- 87A which makes tax liability nil if total income doesn't exceed 7 lakhs under New Tax Regime.
5. Taxpayers will have the option of choosing between new tax regime and old tax regime.
6. Under New Tax Regime, the highest surcharge rate of 37% on income above 5 crores would be reduced to 25 %.

#### *Proposed Amendments with respect to Deductions & Exemptions:*

Receipts arising from life insurance policies issued on or after 1st April, 2023 shall be considered as income from other sources if the premium paid exceeds Rs 5 lakhs in a given year. The exemption for receipts in the event of insured person's death shall remain unchanged.

Proposed Amendments with respect to Capital Gains: -

1. The transformation of physical gold into Electronic Gold Receipts and Vice versa by vault Manager registered with SEBI shall not be considered as transfer for the purposes of Capital Gains taxation.
2. The cost of any intangible assets and rights shall be considered as nil for which no consideration has been paid for its acquisition.
3. The gains derived from the transfer, redemption, or maturity of market linked debentures shall be taxed at applicable rates of short term capital gains under section 50AA.
4. An individual or HUF can claim a maximum exemption of Rs. 10 crores under section 54 and 54F i.e., in respect of selling residential property and other long term assets and investment into New Residential Property.

### ***A comparative analysis of Old Tax Regime vs. New Tax Regime:***

#### ***Advantages of Old Tax Regime:***

The old tax regime induced savings culture in individual taxpayers by requiring investments in certain specific tax-saving instruments like PPF, ELSS of Mutual fund, Insurance plan (endowment plan) etc. This ultimately benefits the individuals to meet funds requirements in future events such as Home purchase, marriage, education etc.

#### **Limitations of Old Tax Regime:**

Old Tax Regime suffers from the following limitations:

- Investment lock in periods affects the liquidity.
- Choosing different tax deduction and Exemption avenues is indeed cumbersome.
- Reducing the current consumption capacity of individuals because of perking money into investments.
- Limited number of tax-saving avenues.

#### ***New Tax Regime:***

After Budget announcements made in the Budget 2023, the New Tax Regime looks attractive in two aspects - 1. Reduced tax slabs with reduced rates in the range of Rs. 15 lakhs. 2. Introduction of Standard Deduction of Rs. 50000 for salaried individuals.

#### ***Benefits:***

1. For taxpayers whose incomes falls up to Rs. 7 lakhs (for Salaried person up to Rs. 7.5 lakhs), tax liability becomes nil.
2. Individuals do not need to forgo current consumption in order to do tax planning to make in investments, that results in more liquidity in the hands of taxpayers.
3. New Tax Regime simplifies the computation of tax.

#### ***Limitations:***

1. Apart from Standard Deduction, it would not provide any relief in respect of other deduction and exemptions.
2. It may stop the savings - making culture of the individuals.

#### ***Which tax regime is better?***

Going by the declarations, amendments made in the Budget 2023 following are the important observations about the choice of tax regime:

1. For individuals whose income up to Rs. 7 lakhs (for Salaried Individual up to Rs. 7.5 lakhs), New Tax Regime obviously proves beneficial with or without any deductions & exemptions as Tax liability is nil due to Rebate u/s- 87A.
2. Above Rs. 7 lakhs, the choice between Old Tax Regime and new Tax Regime depends on the gross amount of Deductions & exemptions together to be claimed by individuals. It is depicted in the table given below:

3. Taxpayers having annual income above 15 lakhs should continue with Old Tax Regime of their deductions and exemptions (including Standard Deduction) are higher than Rs. 425000 in the financial year.
4. But if their deductions & exemptions are below 425000, they should shift to new Tax Regime in order to save tax.

Income levels	Deduction & exemption amount required in old tax regime to match with Tax liability in New regime
up to Rs. 500000	Nil for both
600000	100000
700000	200000
800000	212500
900000	262500
1000000	300000
1100000	325000
1200000	350000
1300000	362500
1400000	375000
1500000	408333
Above 1500000 up to 5 crores	425000

***New vs Old Regime: A practical case study:***

*Comparison between old & new tax regime if annual income= 10 lakhs:*

	Old Regime (RS )	New Regime (RS)
Gross salary Income	1000000	1000000
Less: Deductions claimed:		
Standard deduction u/s 16(ia)	50000	50000
Deduction u/s- 80C	150000	NA
Interest on home loan u/s 24(b)	100000	NA
NPS contribution u/s- 80 CCD(1B)	50000	NA
Mediclaime u/s- 80D	20000	NA
<b>TAX LIABILITY</b>	<b>40040</b>	<b>54600</b>

As the deductions claimed is Rs. 370000 i.e., above 300000, the taxpayer would be able to save Rs. 14560 in the form of Tax under old Tax Regime.

## **Conclusion**

After the amendments in New tax regime in the Budget 2023, individual taxpayers shall be greatly benefited if their income is equal to or less than Rs. 7 lakhs (salaried individual - 7.5 lakhs). But if his income is above 7.5 lakhs but less than 5 crores with adequate amounts of deductions and exemptions, old tax regime can be proved a better choice among two regimes. But considering the individual's intention to have more liquid money & unable to cope up with complex tax computation in old Tax Regime, new Tax Regime can be a better choice.

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