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Research Paper

The indifference level of income for the old regime and new regime (2023-24)

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Abstract: *The existing old tax regime along with the optional (now default) new tax regime has made very difficult for the tax payers to arrive at a conclusion as to which regime is more beneficial. An attempt has been made in this paper to understand at what level or amount of deduction and/exemptions at various different levels of income , it would be more beneficial to the tax payer to opt for new regime or retain the old regime.*
Key words: ***Old tax regime, New tax regime, deductions, exemptions, income levels.***

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I. Introduction :

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.

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

Table No. 1 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%	

Table No. 2 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

Table No. 3
Chart indicating at what level of income and deduction New Regime is beneficial
F Y 2023-24

Sl No.	Taxable Income New Regime (Rs.)	Difference in Tax liability under old and new regime with the following deductions/exemptions				
		Total Deductions/ Exemptions of Rs.1,00,000	Total Deductions/ Exemptions of Rs.2,00,000	Total Deductions/ Exemptions of Rs.3,00,000	Total Deductions/ Exemptions of Rs.4,00,000	Total Deductions/ Exemptions of Rs.5,00,000
1	5,00,000	Nil	Nil	Nil	Nil	Nil
2	6,00,000	Nil	Nil	Nil	Nil	Nil
3	7,00,000	-32,500	Nil	Nil	Nil	Nil
4	8,00,000	-17,500	2,500	35,000	25,000	25,000
5	9,00,000	-32,500	-7,500	12,500	45,000	45,000
6	10,00,000	-32,500	-12,500	7,500	27,500	60,000
7	11,00,000	-37,500	-17,500	2,500	22,500	42,500
8	12,00,000	-52,500	-22,500	-2,500	17,500	37,500
9	13,00,000	-62,500	-32,500	-2,500	17,700	37,500
10	14,00,000	-72,500	-42,500	-12,500	17,500	37,500
11	15,00,000	-82,500	-52,500	-22,500	7,500	37,500
12	16,00,000	-82,500	-52,500	-22.500	7,500	37,500
13	17,00,000	-82,500	-52,500	-22,500	7,500	37,500
14	18,00,000	-82,500	-52,500	-22,500	7,500	37,500

Source : Prepared and self-generated by the authors.

II. Results and Discussion :

1. Negative figures indicates the tax liability arising because of following the old regime. When the deduction is Rs.1,00,000, the tax liability is Rs. 32,500 when the income level is Rs.7,00,000. And thereby it keeps on increasing with the increase in the income level upto a tax liability of Rs. 82,500 when the income level is Rs.15,00,000 and above.
2. When the deduction/exemption is Rs.2,00,000, the tax liability is positive of Rs.2,500 at the income level of Rs.8,00,000; which means it is beneficial to opt for new regime. Thereafter it is negative at the income level of Rs.9,00,000 , meaning that the tax liability is more by Rs.7,500,when old regime is opted. Thereby, the tax liability keeps on increasing under the old regime upto Rs.52,500 when it reaches the income level of Rs.15,00,000 and above.
3. When the deduction/exemption availed is of Rs.3,00,000, then there will be additional tax liability under the new regime of Rs.35,000 at the income level of Rs.8,00,000; which decreases to Rs.12,500, Rs.7,500 and Rs.2,500 at the income level of Rs.9,00,000, Rs.10,00,000 and Rs.11,00,000 respectively. From the income level of Rs.12,00,000, it is beneficial to the extent of Rs.2,500 under the old regime, increasing upto Rs.22,500 at the income level of Rs.15,00,000 and above.
4. When the deduction is Rs.4,00,000, it is always beneficial for any assesse to opt for the old regime as there is less tax liability compared to new regime of Rs.25,000 at Rs.8,00,000, increasing to Rs.45,000 at Rs.9,00,000 level of income and thereafter reducing to Rs.7,500 at Rs.15,00,000 level of income onwards.
5. When the deduction is Rs.5,00,000, it is always beneficial for any assesse to opt for the old regime as there is less tax liability compared to new regime of Rs.60,000 at Rs.10,00,000 level of income. Therefore the tax benefit reduces under the old regime to Rs.37,500 at Rs.12,00,000 level of income and thereafter at various levels of income.
6. The point of indifference arises at income level of around Rs.11,50,000 with deduction of Rs.3,00,000.

Under Old regime : Tax on 11,50,000 (with deduction of Rs.3,00,000)= Rs.12,500+70,000 = 82,500.
Under New regime : Tax on 11,50,000 = 15,000 + 30,000 + Rs.37,500 (2,50,000 x 15%) = 82,500.

III. Conclusion :

1. The above workings is an indication which would suggest when to opt for new regime or old regime.
2. Different amount of deductions/exemptions at different levels of income have difference in tax impact due to various reasons , i.e change in rates of tax at different slab levels.
3. The above calculations suggest that when there is sizable amount of deductions and exemptions, it is not advisable to opt for new regime. In case there is huge interest on education loan every year or high amount of HRA deduction in case of highly paid salaried employees, it is not advisable to go for the new regime. It is better to be in the old regime. There can also be cases of high amount of donations given to political parties in which case the GTI is the limit, again it would not be advisable to go for new regime.
4. It is always better to do the complete workings before arriving at any decision.
5. The new regime still requires further improvements in benefiting the tax payers to become more attractive.

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Short Bio:

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