



OLD TAX REGIME VS NEW TAX REGIME

Yashvi Malde

Email : ykmalde0711@gmail.com

- The very first question which comes to our mind when we deal with tax is that who introduced the concept of Income tax in India? And the answer to that question is “James Wilson”, the first Finance Minister of the British Indian Government.
- Income tax is a type of levy that the Central Government charges on the income earned during a financial year by the individuals and businesses. Each taxpayer is taxed differently under the Indian income tax laws. While firms and Indian companies have a fixed rate of tax computed on their profits; the individual, HUF, AOP and BOI taxpayers are taxed based on the income slab they fall under. People's incomes are grouped into blocks called tax brackets or tax slabs. And each tax slab has a different tax rate.
- With a view to make the new personal tax regime u/s 115BAC more attractive and to encourage more and more individuals to switch to the new regime, in order to reduce the perceived complexities in return filing and assessments arising out of the plethora of deduction claims of the taxpayers, applicable in the old regime, the Union Budget 2023 has increased the available limit of rebate u/s 87A, from existing Rs. 5 lakhs to Rs. 7 lakhs in the new personal tax regime, w.e.f. financial year 2023-24 and onwards. These changes indicate the government's intention to have taxpayers transition to the new regime and eventually phase out the old one. Though the new regime is now the default tax regime, the old tax regime will continue to exist.
- Finance Act 2023 has provided that the New Tax Regime under section 115BAC would also be applicable to Association of Persons (other than co- operative society), Body of Individuals and artificial jurisdiction person in addition to Individuals and HUFs.

➤ **Introduction of New Tax Regime ('NTR'):**

Beginning April 1, 2020 (FY 2020-21), the Government of India introduced a new tax rate regime for individuals and Hindu undivided families (HUF) by way of insertion of section 115BAC in the Income Tax Act. The new scheme was introduced with lower tax rates for those foregoing certain exemptions.

As per the erstwhile provisions, the NTR was optional and the taxpayers had an option for being covered by the new scheme in the prescribed manner:

- (i). Where such individual or HUF does not have has no business income, the option was to be exercised for every year on or before the due date of along with the filing of the return of income under section 139(1) for the year
- (ii). Where such individual or HUF has business income, the option was to be exercised on or before the due date of filing the return of income and such option once exercised shall apply for that previous year and to all subsequent years.

Finance Act 2023 has amended the provisions to provide that NTR under section 115BAC would apply by default unless the taxpayer exercises an option to opt for the old regime.

➤ **Tax Rates, Rebates & Surcharge under both tax regimes:**

Old Tax Regime for AY 2024-25

a) Every Individual, HUF, AOP, BOI, AJP and Non-Residents:

Income Slabs	Tax Rates		
	Individuals	Senior Citizens	Super Senior Citizens
Upto Rs. 2,50,000	-	-	-
Rs. 2,50,001 – Rs.3,00,000	5%	-	-
Rs. 3,50,001 – Rs.5,00,000	5%	5%	-
Rs. 5,00,001 – Rs.	20%	20%	20%
Above Rs.10,00,000	30%	30%	30%

b) Rebate and Surcharge Rates:

- In case of Old Tax Regime, rebate u/s 87A continues at Rs 12,500 if total income does not exceed Rs 5 lakhs.
- Surcharge on income taxable u/s 111A (STCG), 112A (LTCG) from all assets and dividend income would be restricted to 15%

Income Slabs	Surcharge Rates
Upto Rs. 50,00,000	-
Rs. 50,00,001 – Rs. 1,00,00,000	10%
Rs. 1,00,00,001 – Rs. 2,00,00,000	15%
Rs. 2,00,00,001 – Rs. 5,00,00,000	25%
Above Rs. 5,00,00,000	37%

New Tax Regime for AY 2024-25 (Sec 115BAC):**a) Every Individual, HUF, AOP, BOI, AJP and Non-Residents:**

Income Slabs	Tax Rates
Upto Rs. 3,00,000	-
Rs. 3,00,001 – Rs. 6,00,000	5%
Rs. 6,00,001 – Rs. 9,00,000	10%
Rs. 9,00,001 – Rs. 12,00,000	15%
Rs. 12,00,001 – Rs. 15,00,000	20%
Above Rs. 15,00,000	30%

b) Rebate and Surcharge Rates:

Income Slabs	Surcharge Rates
Upto Rs. 50,00,000	-
Rs. 50,00,001 – Rs. 1,00,00,000	10%
Rs. 1,00,00,001 – Rs. 2,00,00,000	15%
Rs. 2,00,00,001 – Rs. 5,00,00,000	25%
Above Rs. 5,00,00,000	25%

- Please note that the tax rates under the NTR are the same for all categories of Individuals, i.e. Individuals, Senior citizens and Super senior citizens.
- Rebate - In case of an individual assessee resident in India whose total income taxable under section 115BAC does not exceed Rs 7,00,000 (after standard deduction if applicable), a rebate of an amount equal to 100% of income tax or Rs 25,000, whichever is lower, shall be available from such income tax on his total income. Effectively in such cases tax liability will be NIL.

List of Tax Deductions and Exemptions Allowed Under the New Tax Regime:

Exemptions/Deductions Not Allowed under New Regime	Exemptions/Deductions Allowed under New Regime
<ul style="list-style-type: none"> • The standard deduction under Section 80TTA/80TTB • Professional tax and entertainment allowance on salaries • Leave Travel Allowance (LTA) • House Rent Allowance (HRA) • Minor child income allowance • Helper allowance • Children education allowance • Other special allowances [Section 10(14)] • Interest on housing loan on the self-occupied property or vacant property (Section 24) • Chapter VI-A deduction (Section 80C, 80D, 80E and so on, except Section 80CCD(2) and Section 80JJAA) • Exemption or deduction for any other perquisites or allowances including food allowance of Rs 50/meal subject to 2 meals a day • Employee's (own) contribution to NPS • Donation to Political party/trust, etc 	<ul style="list-style-type: none"> • Transport allowances in case of a specially-abled person. • Conveyance allowance received to meet the conveyance expenditure incurred as part of the employment. • Any compensation received to meet the cost of travel on tour or transfer. • Daily allowance received to meet the ordinary regular charges or expenditure you incur on account of absence from his regular place of duty. • Perquisites for official purposes • Exemption on voluntary retirement 10(10C), gratuity u/s 10(10) and Leave encashment u/s 10(10AA) • Interest on Home Loan on let-out property (Section 24) • Gifts up to Rs 50,000 • Deduction for employer's contribution to NPS account [Section 80CCD(2)] • Deduction for additional employee cost (Section 80JJA) • Standard deduction of Rs 50,000 under Salary head • Deduction under Section 57(iia) of family pension income • Deduction of Additional employee cost u/s 80JJAA • Deduction u/s 80CCD(2) - Employer's contribution to NPS • Deduction u/s 80CCH(2) - Contribution to Agniveer Corpus Fund

➤ When can I opt for Old or New Tax regime?

Earlier, the assessee had to exercise an option for availing the Tax Regime under section 115BAC. However, now tax regime under section 115BAC would apply by default unless the assessee exercises an option to opt for the old regime.

In case you have Business or profession income, the choice between different tax regimes can only be made once in a lifetime.

You need to choose the appropriate tax regime at the beginning of the financial year since the same cannot be modified during the year. However, the option can be modified while filing the Income Tax Return. Once the taxpayer chooses the tax regime at the beginning of the year, the investments and TDS or advance tax payable calculations are made accordingly. Also, the taxpayer has to furnish **Form 10IE** to the income tax department before filing the return if the taxpayer intends to opt in or opt out from the new tax regime.

➤ Old Tax regime Vs New Tax regime - Which is better?

Both the old and new tax regimes possess advantages and disadvantages. The old tax regime encourages taxpayers to cultivate a habit of saving, while the new tax structure favours employees with lower earnings and investments, resulting in fewer deductions and exemptions. The new tax system is considered safer and simpler that reduces the potential for tax evasion and fraud. However, due to the unique nature of individual deductions and exemptions, a thorough comparison of the two regimes is necessary to determine the best fit for each person.

The new income tax regime is beneficial for people who make less investments. As the new regime offers seven lower-income tax slabs, anyone paying taxes without claiming tax deductions can benefit from paying a lower rate of tax under the new tax regime. Therefore, if you invest less in tax-saving schemes, go for the new regime.

That being said if you already have in place a financial plan for wealth creation by making investments in tax-saving instruments; mediclaim and life insurance, the old regime helps you with higher tax deductions and lower tax outgo.

In light of the above and considering the new income tax regime, if taxpayers want to opt for the concessional tax rates, they may evaluate both regimes. Hence, it is advisable to do a comparative evaluation and analysis under both regimes and then choose the most beneficial one as it may vary from person to person.

➤ Break Even Analysis for Individuals (other than Senior and Super Senior citizens), HUF, AOP, BOI, and AJP:

Gross Income (In Rs.)	Deductions								
	Zero	₹ 1,00,000.00	₹ 1,38,500.00	₹ 2,12,500.00	₹ 2,50,000.00	₹ 2,62,500.00	₹ 3,12,500.00	₹ 3,25,000.00	₹ 3,75,000.00
₹ 5,50,000.00	SAME	SAME	SAME	SAME	SAME	SAME	SAME	SAME	SAME
₹ 7,00,000.00	New	SAME	Old						
₹ 8,00,000.00	New	New	SAME	Old	Old	Old	Old	Old	Old
₹ 9,00,000.00	New	New	New	SAME	Old	Old	Old	Old	Old
₹ 10,00,000.00	New	New	New	New	SAME	Old	Old	Old	Old
₹ 10,50,000.00	New	New	New	New	New	SAME	Old	Old	Old
₹ 12,50,000.00	New	New	New	New	New	New	SAME	Old	Old
₹ 14,00,000.00	New	New	New	New	New	New	New	SAME	Old
₹ 15,50,000.00	New	New	New	New	New	New	New	New	SAME
₹ 16,00,000.00	New	New	New	New	New	New	New	New	SAME

➤ **Points to be Noted:**

1. As per Sec 115JC(5), AMT provisions will not apply under NTR. Also, any carried forward AMT credit will lapse under NTR as per Sec 115JD(7).
2. Deduction u/s 80 LA is extended under the NTR as well to a person having a unit in IFSC.
3. Sec 115BAC does not expressly exclude a non-resident person from its purview. Thus, the NTR will apply to non-residents.

➤ **Case Studies:**

1) **Which tax regime is better for FY 2023-24 in the following case?**

Income (Rs.)	Amount (Rs.)	Old Regime (Rs.)	New Regime (Rs.)
Salary	12,50,000	12,50,000	12,50,000
Less: Standard deduction	50,000	50,000	50,000
Less: Professional tax	2,400	2,400	-
Gross total income	11,97,600	11,97,600	12,00,000
Less: Deduction u/s 80C	150,000	150,000	-
Total income	10,47,600	10,47,600	12,00,000
Income tax		1,26,780	90,000
Add: Education cess @ 4%		5,071	3,600
Total tax		1,31,851	93,600

In the above example, for an income of Rs 12,50,000, the new tax regime is significantly beneficial since the tax outgo is lesser by Rs. 38,251. However, if you claim further deductions for interest on housing loan for SOP, health insurance, investment in NPS, education loans and so on, the old regime will be helpful in respect of tax savings.

2) Which tax regime is better for FY 2023-24 in the following case?

Income (Rs.)	Amount (Rs.)	Old Regime (Rs.)	New Regime (Rs.)
Salary	10,00,000	10,00,000	10,00,000
Less: HRA Exemption	70,000	70,000	-
Less: Standard deduction	50,000	50,000	50,000
Less: Professional tax	2,400	2,400	-
Gross total income	9,47,600	8,77,600	9,50,000
Less: Deduction u/s 80C	1,50,000	1,50,000	-
Less: Deduction u/s 80D	50,000	50,000	-
Total income	10,47,600	6,77,600	9,50,000
Income tax		48,020	52,500
Add: Education cess @ 4%		1,921	2,100
Total tax		49,941	54,600

In above example, for an income of Rs 10 lakh having HRA exemption and 80D deduction, the old tax regime is beneficial since the tax outgo is lesser by Rs 4,659.

➤ **Conclusion:**

Post Budget 2023 announcements, the salaried class, the businessmen and the professionals are confronted with a tough choice between the old regime with available deductions and the new regime with tax slab rates reduction. The most practical, logical and authentic way to make this choice easier for them, is to work out the exact amount of specified deductions which are required to be claimed by them in the old regime, at different levels of income, to break-even with the reduced tax liability in the new personal tax regime. Evaluating your specific circumstances and consulting with a tax professional to make a wise decision is recommended.

I hope that this article might have proven informative to you all and helps you better in deciding which tax regime to opt for! Thank You....