

PERSONAL TAXATION: “DECODED - NEW REGIME VS OLD REGIME”.



Sanket Sethiya
Email : sanketsethiya6@gmail.com

As per recently proposed Finance Bill, 2023, “Personal Income Tax” under “Direct Taxation” seems to be primarily benefitting our “Hard – working Middle Class”. In this article we aim to put forward an analysis of proposed changes in the tax rates applicable to Individuals in the Union budget presented by our Hon'ble Finance Minister along with the comparison between old regime and new regime.

For analysis purpose, this topic has been segregated into following sub – topics:

- Revised Slab Rates.
- Increase in limit of Rebate.
- Standard deduction for "Income from Salary".
- Reduction in highest surcharge rate.
- Other major changes.
- Comprehensive example

Now let us understand this above listed sub – topics in depth.

a. Revised Slab Rates:

- Provision:**

Under Old regime – The slab rates are unaffected (Slab rates are as summarized below).

Before Changes		After Changes	
Total Income	Tax Rate	Total Income	Tax Rate
Up to Rs. 2,50,000	Nil	Up to Rs. 2,50,000	Nil
Rs. 2,50,000 to Rs. 5,00,000	5%	Rs. 2,50,000 to Rs. 5,00,000	5%
Rs. 5,00,000 to Rs. 10,00,000	20%	Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%	Above Rs. 10,00,000	30%

Under new regime – The number of slabs has been reduced from 6 to 5 slabs (Slab rates are as summarized below).

Before Changes		After Changes	
Total Income	Tax Rate	Total Income	Tax Rate
Up to Rs. 2,50,000	Nil	Up to Rs. 3,00,000	Nil
Rs. 2,50,000 to Rs. 5,00,000	5%	Rs. 3,00,000 to Rs. 6,00,000	5%
Rs. 5,00,000 to Rs. 7,50,000	10%	Rs. 6,00,000 to Rs. 9,00,000	10%
Rs. 7,50,000 to Rs. 10,00,000	15%	Rs. 9,00,000 to Rs. 12,00,000	15%
Rs. 10,00,000 to Rs. 12,50,000	20%	Rs. 12,00,000 to Rs. 15,00,000	20%
Rs. 12,50,000 to Rs. 15,00,000	25%	Above Rs. 15,00,000	30%
Above Rs. 15,00,000	30%		

- **Example:** A person having annual total income of Rs. 9,00,000, following table shows tax calculation under both regimes:

Particulars	As per old regime	As per new regime (Before changes)	As per new regime (After changes)
Total Income	Rs. 9,00,000	Rs. 9,00,000	Rs. 9,00,000
Tax liability (excluding HEC)	Rs. 92,500	Rs. 60,000	Rs. 45,000
% of tax liability to total income	10.27%	6.67%	5%

- **Analysis:** As we can clearly observe that tax liability under old regime and that of new regime (after changes) there is tax saving of **5.27%** (10.27% - 5%) and due to changes in slab rate under new regime net result is of reduction of tax liability by **1.67%** (6.67% - 5%).

Note: the above table does not consider the Standard Deduction and Chapter VIA deduction which have been discussed further in this Article.

b. Increase in limit of Rebate.

- **Provision:**

Under Old regime – There have been no changes made in rebate i.e., those with income up to Rs. 5,00,000 are not required to pay any tax.

Under new regime – The rebate limit has been increased from Rs. 5,00,000 to Rs. 7,00,000 i.e., now those having income up to Rs. 7,00,000 are not require to pay any tax.

- **Examples:**

Case – I: A person having annual total income of Rs. 5,00,000/-, following table shows the rebate calculations under both regimes.

Particulars	As per old regime	As per new regime (Before changes)	As per new regime (After changes)
Total Income	Rs. 5,00,000	Rs. 5,00,000	Rs. 5,00,000
Tax liability	Rs. 12,500	Rs. 12,500	Rs. 10,000
Less: Rebate u/s 87A	Rs. 12,500	Rs. 12,500	Rs. 10,000
Tax payable (excluding HEC)	Nil	Nil	Nil

Case –II: A person having annual total income of Rs. 7,00,000/-, following table shows the rebate calculations under both regimes.

Particulars	As per old regime	As per new regime (Before changes)	As per new regime (After changes)
Total Income	Rs. 7,00,000	Rs. 7,00,000	Rs. 7,00,000
Tax liability	Rs. 52,500	Rs. 32,500	Rs. 25,000
Less: Rebate u/s 87A	Nil	Nil	Rs. 25,000
Tax payable (excluding HEC)	Rs. 52,500	Rs. 32,500	Nil

- **Analysis:** As per above elaborated examples, it can easily be understood that amendment provides taxpayer an additional tax-free income of Rs. 2,00,000.

c. Standard deduction for "Income from Salary".

- **Provision:**

Under Old regime – There is no change in standard deduction i.e., standard deduction allowed in income from salary is to the extent of Rs. 50,000/-.

Under new regime – Earlier there was no leisure of standard deduction for salaried person under the new regime, although as per the changes proposed, standard deduction to the extent of Rs. 50,000/- is allowed from income from salary.

- **Example:** A person having salaried income of say Rs. 10,00,000/-, following table shows the “Income from Salary” calculations under both regimes.

Particulars	As per old regime	As per new regime (Before changes)	As per new regime (After changes)
Gross Salary from employer	Rs. 10,00,000	Rs. 10,00,000	Rs. 10,00,000
Less: Standard deduction 16(ia)	Rs. 50,000	Nil	Rs. 50,000
Income from salary	Rs. 9,50,000	Rs. 10,00,000	Rs. 9,50,000
Tax payable (excluding HEC)	Rs. 1,02,500	Rs. 75,000	Rs. 52,500

- **Analysis:** As amendment provides standard deduction of Rs. 50,000 & due to revised slab rates there's reduction in tax liability by Rs. 22,500 (75,000 – 52,500).

d. Reduction in highest surcharge rate. (Applicable to New Regime).

- **Provision:** The highest rate of surcharge has been reduced from 37% to 25%. The summary of modifications has been summarized below:

Particulars	As per old regime	As per new regime (Before changes)	As per new regime (After changes)
Total Income exceeding Rs. 50 Lakhs but does not exceed Rs. 1 Crore.	10%	10%	10%
Total Income exceeding Rs. 1 Crore but does not exceed Rs. 2 Crore.	15%	15%	15%
Total Income (excluding dividend income, 111A income, 112 income & 112A income) [#] exceeding Rs. 2 Crore but does not exceed Rs. 5 Crore.	25%	25%	25%
Total Income (excluding dividend income, 111A income, 112 income & 112A income) [#] exceeding Rs. 5 Crore.	37%	37%	25%

Surcharge on Long – Term Capital gain, Short – Term Capital gain & dividend has been capped to 15%.

- **Example:** A person having total income of Rs. 5,50,00,000/-, following table shows the calculation of surcharge calculation.

Particulars	As per old regime	As per new regime (Before changes)	As per new regime (After changes)
Total Income (after deductions)	Rs. 5,50,00,000	Rs. 5,50,00,000	Rs. 5,50,00,000
Tax Payable as per slab rates	Rs. 1,63,12,500	Rs. 1,62,37,500	Rs. 1,62,00,000
Applicable surcharge	37%	37%	25%
Add: Surcharge	Rs. 60,35,625	Rs. 60,07,875	Rs. 40,50,000
Tax Payable	Rs. 2,23,48,125	Rs. 2,22,45,375	Rs. 2,02,50,000

- **Analysis:** As per above elaborated example, it is easy to understand that High net – worth person having income in excess of Rs. 5.5 Crore, the tax liability has been reduced by around Rs. 20 Lakhs.

e. Other major changes:

- **Amendment in section 54 & 54F:** The deduction upon sale of any long term – capital asset on purchasing of new residential house property has been capped up to Rs. 10 Crores.
- **Amendment in section 44AD & 44ADA:** The limit for presumptive taxation scheme i.e., for business & professions has been increased from Rs. 2 Crore & Rs. 50 Lakhs to Rs. 3 Crore & Rs. 75 Lakhs respectively.
- **Conversion of Physical gold into EGR (Electronic Gold Receipt):** As the definition of asset has been amended by including EGR. It is also clarified that capital gain shall not be attracted on mere conversion of physical gold to EGR & vice versa.
- **Deduction under section 80CCH:** A new section has been introduced under chapter VI – A “Deduction from Gross Total Income” which is available under both schemes i.e., old as well as new regime of taxation, provided a person deposited an amount “*Agniveer Corpus Fund*” to the extent of amount deposited under the said scheme.
- **New regime to be a default regime:** As per amendment new regime is to be considered as default regime i.e, for availing benefits under old regime it seems to be that we're require to file an additional form. Earlier we are required to file an additional form for availing benefit under new regime.

f. Comprehensive example:

For an example, a person having a salary income of say Rs. 12,00,000 p.a. and having saving bank interest of Rs. 10,000. Below is the tax computation under both regimes.

Particulars	As per old regime	As per new regime (Before changes)	As per new regime (After changes)
Gross Salary	Rs. 12,00,000	Rs. 12,00,000	Rs. 12,00,000
Less: Standard deduction u/s 16(ia)	Rs. 50,000	Nil	Rs. 50,000
Income from salary (A)	Rs. 11,50,000	Rs. 12,00,000	Rs. 11,50,000
Income from other sources (Saving Bank Interest) (B)	Rs. 10,000	Rs. 10,000	Rs. 10,000
Gross Total Income (C = A+B)	Rs.11,60,000	Rs. 12,10,000	Rs. 11,60,000
<u>Less: Deduction under Ch VI - A</u>			
U/S - 80C	Rs. 1,50,000	Nil	Nil
U/S - 80D	Rs. 25,000	Nil	Nil
U/S - 80TTA	Rs. 10,000	Nil	Nil
Total deductions (D)	Rs. 1,85,000	Nil	Nil
Total Income (E = C - D)	Rs. 9,75,000	Rs. 12,10,000	Rs. 11,60,000
Tax Liability (as per slab rates) (F)	Rs. 1,07,500	Rs. 1,17,000	Rs. 84,000
Add: Health and educational cess @ 4% (G)	Rs. 4,300	Rs. 4,680	Rs. 3,360
Tax Payable (H = F + G)	Rs. 1,11,800	Rs. 1,21,680	Rs. 87,360
% of tax payable to gross total income (H/C*100)	9.64%	10.06%	7.53%

Note – As per above examples, we can clearly observe that tax payable under new regime is only 7.53% despite of no deductions allowed as compared with new regime i.e, 9.64%.

As per above detailed discussion, it's clearly evident that new regime has lower impact on our pocket from our total income earned. ◆◆◆