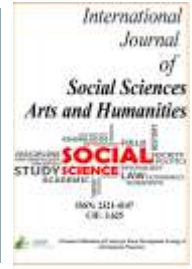


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Full Length Research Paper

Examining the New Income Tax System in Comparison to the Old Tax System: A Critical Study

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ABSTRACT

Government revenue is generated in large part by individuals being required to pay income taxes. The Indian government introduced a brand-new system of individual income tax in its 2020 budget. Both the old and new tax regimes will be available to taxpayers beginning in fiscal years 2020 and 2021. The union budget for 2023–2024 includes several changes to the new tax structure, as announced by the finance minister. Rather than being an option that taxpayers can select, the new system will now be considered the "default" choice. Still, nothing has changed with the old tax system. In view of the changes introduced by the new tax system in Budget 2023–2024, this essay makes an effort to determine which system would be most beneficial to taxpayers. The data used in this study came entirely from secondary sources, such as scholarly publications, news stories, books, and newspapers. In this article, the "changes made in the new tax regime under the union budget 2023–2024" are emphasized.

1. Introduction

Business and employee income, as well as the prices of specific goods and services, are subject to taxes, which are obligatory monetary payments to state coffers. Around two thousand years ago, Caesar Augustus sent an edict requiring taxes all throughout the world. Taxes were levied under the Roman, Greek, and German empires as well, sometimes according to turnover and other times according to occupation. Over the course of many centuries, the Monarch was enriched by the tax revenue.

A number of Indian dynasties, such as the Maurya and Gupta, instituted tax systems. Grain, cattle, and other agricultural products served as tax collectors. A number of tax systems were detailed in the ancient economic and political treatise known as the Arthashastra.

The various taxation systems that followed with the modern system having its roots hundreds of years ago. (**Shankar Prasad 2024**). The New Tax Regime was implemented in the 2020-21 Union Budget by the government in an attempt to streamline the direct tax. The New Income Tax System is Voluntary. The taxpayer can choose to keep using the old tax system or switch to a new one. As an employee, you get to pick this option at the beginning of the year and then you get to alter it again the following year. Having said that, the opportunity to select the New Tax system is one-time only for businesses and professions.

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Under the new tax system, individuals with incomes below ₹7 lakhs would not be required to make any investments in order to qualify for exemptions; in fact, their whole income would be exempt from taxes regardless of the amount invested. The middle class will have more disposable income to spend as they won't have to worry as much about saving for tax breaks or investing their money wisely. By allowing taxpayers to claim certain deductions, the New Tax Regime has become more appealing according to Union Budget 2023.

Nevertheless, the former tax system will continue in place, as the minister of finance for the union budget for 2023–2024 has suggested certain changes to the latter. Budget projections for 2023 and 2024 indicate that the new tax system will serve as the "default" choice. So, taxpayers have a choice between the old and new tax regimes; if they don't want to switch, the system will switch for them.

Incomes up to Rs. 15 lakhs are subject to a reduced rate in each of the six tax bands under the new regime. To those who invest little, the new income tax scheme will be a boon. The majority of wage earners have several sources of income, including rent or mortgage payments, health insurance premiums, medical insurance, provident fund (PF) or national pension system (NPS) contributions, and interest from savings accounts. But because there are different income bands and tax rates for those who choose the New Tax Regime, there aren't a lot of deductions and exemptions to choose from. It follows that few individual taxpayers have chosen the new tax regime during the previous two years, suggesting that it is unpopular. A new personal income tax system with lower rates and additional tax slabs was suggested in Budget 2020, but all deductions and exemptions were deleted. Taxpayers were subsequently given the choice between the old and new tax systems by the Finance Minister. (Kamble and Suhanalsak 2023)

Objectives of the study:

1. Researching the differences and similarities between the previous and current tax systems.
2. Researching the 2023–2024 union budget's revised tax system.
3. Determine which tax system is best for the people who pay taxes.

2. Data Collection and Research technique

This research article makes use of a descriptive and analytical research technique. All of the data used in this paper came from other sources. Sources for secondary data include official documents, books, journals, articles, and newspapers.

3. The System of Taxes:

Direct and indirect taxes are the two main types of Indian taxes. One kind of direct tax that is well-known is income tax. It is the main way the government makes money. It is mandatory for all taxpayers to pay their taxes as stated in the Income Tax Act of 1961. In the 2020 budget, India's finance minister introduced a new tax system, thereby offering taxpayers a choice between two different systems. Nonetheless, in the Union Budget 2023–2024, the Minister of Finance suggested certain improvements to the new tax structure that would be advantageous to taxpayers.

4. Tax Slabs & Comparison between Tax Slab Rates.

4.1 Slab rates

As Per Old Tax Regime (Before 2021)

Income (Rs)	Rates (%)
Upto 2.5 lakhs	Nil
2.5 lakhs-5 lakhs	5%
5 lakhs-10 lakhs	20%
Above 10 lakhs	30%

As per New Tax Regime (Introduced in 2021)

Income (Rs)	Rates (%)
Upto 2.5 lakhs	Nil
2.5 lakhs-5 lakhs	5%
5 lakhs-7.5 lakhs	10%
7.5 lakhs-10 lakhs	15%
10 lakhs-12.5 lakhs	20%
12.5 lakhs-15 lakhs	25%
Above 15 lakhs	30%

Changes made in New Tax Regime (Union Budget 2023-2024)

Income (Rs)	Rate (Rs)
Upto 3 lakhs	Nil
3 lakhs-6 lakhs	5%
6 lakhs-9lakhs	10%
9 lakhs-12 lakhs	15%
12 lakhs-15 lakhs	20%
Above 15 lakhs	30%

There were fewer tax slabs under the previous system, but the rates were substantially higher, and the effects were worse. Therefore, in the 2020 budget, the Minister of Finance instituted a new tax structure. With this system, taxpayers may choose between paying their taxes under the old or new system, which had more tax slabs and reduced rates. Due to the elimination of benefits linked with specific exemptions, deductions, and the Standard Deduction under the New Tax Regime, the vast majority of taxpayers continued to choose the old system even after its implementation. "The Term standard deduction refers to the portion of income not subject to tax that can be used to reduce tax liability."

However, the finance minister made certain adjustments to the slab rate for the new tax regime for FY 2023–2024 in the union budget for that year. Anyone can now choose to pay their taxes according to the previous system or the new slabs that have been offered.

4.2 New Proposed Tax Slabs for F.Y. 2023-2024

Old Tax Regime(F.Y. 2023-2024)	New Tax Regime (F.Y. 2023-2024)
0-2.5 lakhs : Nil	0-3 lakhs : Nil
2.5 lakhs-5 lakhs : 5%	3 lakhs-6 lakhs : 5%
5 lakhs-10 lakhs : 20%	6 lakhs-9 lakhs : 10%
Above 10 lakhs : 30%	9 lakhs-12 lakhs : 15%
	12 lakhs-15 lakhs : 20%
	Above 15 lakhs : 30%

4.3 Comparative study of new tax regime introduced in budget 2020 & in budget 2023

Introduced in Budget 2020	Changes made in Budget 2023
Rebate Limit is Rs 5 Lakhs.	Rebate Limit extended to Rs 7 lakhs.
No benefits of deductions.	Standard Deduction allowed of Rs 50,000
No benefit of NPS	NPS allowed uptoRs 50,000

Surcharge table

Old surcharge rates	New proposed surcharge
Above 50 lakhs upto 1 crore: 10%	Above 50 lakhs upto 1 crore: 10%
Above 1 crore upto 2 crore: 15%	Above 1 crore upto 2 crore: 15%
Above 2 crore upto 5 crore: 25%	Above 2 crore: 25%
Above 5 crore: 37%	-

(Highest Surcharge reduced from 37% to 25% in the union budget 2023-2024)

*4.4 Advantages and Disadvantages of the New Tax Regime (According to changes made in union budget 2023-2024)***A. The Advantages of the New Tax Regime :**

1. Under new tax regime, upto Rs 3 lakhs a taxpayer has no need to pay tax.
2. Rebate limit extended upto Rs 7 lakhs.
3. Standard Deduction allowable of Rs 50,000.
4. NPS allowable upto Rs 50,000.

B. The Disadvantages of the New Tax Regime :

1. No HRA or 80GG Exemptions.
2. No deductions under chapter 6A (80C, 80D etc)

3. No home loan benefits.
4. No Leave travelling Allowance.

5. Results

1. Taxpayers who were eligible for different deductions under the old regime had their tax liability lowered, which was a benefit.
2. While tax preparation was crucial under the previous regime, it is now moot under the current one.
3. Under the new tax system, individuals with an income of up to Rs 7,50,000 will benefit.
4. Under the new tax system, you can deduct up to Rs 50,000 as a standard deduction.
5. Taxpayers can benefit from both regimes up to Rs 5 lakh.
6. The new tax system does not allow taxpayers to invest or save money.

6. Future Scope

1. The new tax system ought to permit a variety of deductions and exemptions.
2. It is my recommendation that taxpayers make use of the previous tax system through careful tax planning.
3. The taxpayer should carefully consider all of their options before making a choice, as the new tax regime will be the default.
4. Taxpayers should have the ability to move between the new and old systems, or vice versa, as needed.

7. Conclusion

Because of the new tax system, taxpayers are more liberated. In the union budget for 2023–2024, only individuals opting for the new system will be eligible for personal tax cuts. The new income tax system would have an effect on the income of middle-class taxpayers. Since the new tax system does not provide any deductions or exemptions, tax planning is become unnecessary. Our previous research led us to the conclusion that taxpayers benefit from both regimes up to Rs. 5 lakhs. Nevertheless, one should ascertain their tax liability prior to selecting the optimal course of action if their revenue exceeds Rs. 5 lakhs. The new tax system is beneficial for individuals with incomes up to Rs 7.5 lakhs because of the basic deduction of Rs 50,000. In the new tax system, there is a cap of 7 lakhs on refunds. Selecting the prior tax system is the way to go if one has meticulously planned their taxes, taken use of all available deductions, invested well, and anticipated future benefits; doing so will reduce their tax bill.

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