

A Comparative Study between Old and New Tax Regime for the F.Y. 2023-2024

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Abstract

One of the main ways that the government makes money is through income taxes. A new personal income tax system for individual taxpayers in India was unveiled in the 2020 budget. From FY 2020–2021, taxpayers have a choice between the previous tax regime and the new one.

Finance Minister has announced certain adjustments to the new tax system in the union budget for 2023–2024. The new system will now be the "default" option rather than something that the taxpayer chooses to use. The previous tax system has not changed, though. This essay tries to analyze which tax system, in light of the adjustments made in the new tax system under the Budget 2023–2024, is most advantageous to tax payers. This work is fully dependent on secondary data which is obtained from many journals, articles, Newspapers and books. The "changes made in the new tax regime under the union budget 2023–2024" are highlighted in this article.

Introduction

For individual taxpayers, Budget 2020 proposed a new personal income tax regime with more tax slabs and lower tax rates, but it also eliminated all existing deductions and exemptions. The Finance Minister then offered taxpayers the option of choosing between the new tax regime and the previous tax regime.

However, the finance minister of the union budget for 2023–2024 indicated some revisions to the new tax system, while the old tax system remains unchanged. According to the budget for 2023–2024, the new tax regime will be the "default" option. This implies that a tax payer can choose the old tax regime or the new tax regime, but if they do not, they will be moved automatically to the new tax regime.

Objectives of the study:

01. To study the comparison between old tax regime and new tax regime.
02. To study the changes made in the new tax regime under the union budget 2023-2024.
03. To analyze which tax regime is beneficial to taxpayers.
04. To find out tax liability of an individual under both old tax regime and new tax regime.

Research Methodology & Data Collection:

A descriptive & analytical research methodology has been used for this research paper. This paper is totally based on secondary data. Secondary data has collected from government budget, books, journals, articles & Newspapers.

Taxation System:

Indian taxation is divided into two categories: direct tax and indirect tax. We know the term income tax, which is one sort of direct taxes. It is the government's principal source of income. According to the Income Tax Act of 1961, everyone who owes taxes must do so. The Indian finance minister established a new tax regime in the budget for 2020, giving taxpayers a choice between two tax regimes. However, the Finance Minister proposed several modifications to the new tax system in the Union Budget 2023-2024 that will benefit taxpayers.

Tax Slabs & Comparison between Tax Slab Rates.

SLAB RATES

01. 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%

02. 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%

03. 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%

The former tax system had fewer tax slabs but much higher rates, which did not produce as excellent of results. As a result, the Finance Minister introduced a new tax system in the 2020 budget. This regime offered the option of paying tax obligations under either the previous tax system or the new tax regime and included more tax slabs and lower tax rates.

Even after the New Tax Regime was implemented, the majority of taxpayers still opted for the previous system because the latter eliminated all advantages associated with certain exemptions, deductions, and the Standard Deduction.

"The Term standard deduction refers to the portion of income not subject to tax that can be used to reduce tax liability."

1. House Rent Allowance,
2. Interest in Housing Loan,
3. Leave Travel Allowance etc.

But in the union budget 2023-2024, Finance Minister made certain changes in new tax regime's slab rate for F.Y. 2023-2024. Therefore, from now a person can pay either as per old tax regime or as per the new proposed tax slabs.

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%

COMPARATIVE STUDY OF NEW TAX REGIME INTRODUCED IN BUDGET 2020 & IN BUDGET 2023

Introduced in Budget 2020	Changes made in Budegt 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)

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 :

- 01. Under new tax regime, uptoRs 3 lakhs a taxpayer has no need to pay tax.
- 02. Rebate limit extended uptoRs 7 lakhs.
- 03. Standard Deduction allowable of Rs 50,000.
- 04. NPS allowable uptoRs 50,000.

B. The Disadvantages of the New Tax Regime :

- 01. No HRA or 80GG Exemptions.
- 02. No deductions under chapter 6A (80C, 80D etc)
- 03. No home loan benefits.
- 04. No Leave travelling Allowance.

NEW REGIME VS OLD REGIME (for F.Y. 2023-2024)

(A comparative Study)

Let's try to understand this from a practical point of view:

INCOME (Rs)	STANDARD DEDUCTION (Rs)	EXTRA DEDUCTIONS (Rs)	OLD REGIME TAX		NEW REGIME TAX		BETTER
			Taxable Income (Rs)	Tax (Rs)	Taxable Income (Rs)	Tax (Rs)	
2,70,000	50,000	-	2,20,000	-	1,90,000	-	Both
4,80,000	50,000	-	4,30,000	-	4,30,000	-	Both
6,50,000	50,000	2,00,000	4,00,000	-	6,00,000	-	Both
9,50,000	50,000	2,00,000	7,00,000	52,500	9,00,000	45,000	New tax regime

10,50,000	50,000	2,50,000	7,50,000	37,500	10,00,000	60,000	Old tax regime
14,00,000	50,000	3,00,000	10,50,000	1,27,500	13,50,000	1,20,000	New tax regime
15,50,000	50,000	4,00,000	11,00,000	1,42,500	15,00,000	1,50,000	Old tax regime

Conclusion

Taxpayers have freedom under the new tax system. The only people eligible for any personal tax breaks in the union budget for 2023–2024 are those choosing the new regime. The income of middle class tax payers would be impacted by the new income tax regime. Tax planning is not necessary under the new tax system because there are no deductions or exemptions.

With the help of the aforementioned investigation, we have determined that up to Rs. 5 lakhs, both regimes are advantageous for tax payers. However, if a person's income is higher than Rs. 5 lakhs, he must first determine his tax burden before deciding which option is best for him. A person with income up to Rs 7.5 lakhs is advantageous for the new tax regime since there is a benefit of the standard deduction of Rs 50,000. The refund limit is 7 lakhs under the new tax regime.

If someone has done their tax planning correctly, obtained numerous deductions, invested money, and made plans for future benefits, they should pick the previous tax system because it decreased their tax liability.

Findings

1. Old tax regime was beneficial for the tax payers who were avail for various Deductions because of which their tax liability reduced.
2. Tax planning plays a vital role in old tax regime but there is no role of tax planning in new tax regime.
3. The person with income uptoRs 7,50,000 is beneficial to new tax regime.
4. Standard deduction is also allowable uptoRs 50,000 in new tax regime.
5. We find that uptoRs 5 lakh both regimes are beneficial for the tax payers.
6. There is no provision for investment & savings for Tax payers in new tax regime.

Suggestions

1. Various Deductions, Exemptions should be allowable in new tax regime.
2. I suggest that taxpayer should do proper tax planning and get benefit of old tax regime.
3. While choosing the option, taxpayer should pay proper attention because new tax regime is the default option.
4. There should be option given to tax payers switching from new to old & old to vice versa as per the situation arises.

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