Impact Of New Direct Individual Tax Regime During Last Two Years

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Abstract:
The New Individual Tax Regime was introduced on 1st April, 2020 with the objective of simplifying tax compliance and a lower rate of tax was announced on different slabs which have been increased from 3 to 7 slabs of income range. It is importance to understand how this new individual tax regime has affected the tax liability of the individuals or contributed in increasing the tax base or in increasing tax revenue. Hence an attempt is made to understand the impact of New Direct Tax regime on the options of the assesses, revenue generation and widening the tax base.

Keyword: New tax regime, old tax regime, tax liability, deductions/exemptions, returns, fliers

1. Introduction:

New Tax regime and Old tax regime : From the assessment year 2020-21, the new tax regime have been introduced increasing the number of the number of slabs from 3 slabs to 7 slabs and lowing the rates of tax applicable for different slabs. The details are furnished below :

Table : 1 : Applicable for the financial years 21-22 and 22-23

Tax slab (₹)	Old tax rates	New tax rates
0 – 2,50,000	0%	0%
2,50,000 – 5,00,000	5%	5%
5,00,000 – 7,50,000	20%	10%
7,50,000 – 10,00,000	20%	15%
10,00,000 – 12,50,000	30%	20%
12,50,000 – 15,00,000	30%	25%
15,00,001 and above	30%	30%

The main objective of the Government has been in introducing the new tax regime is that it should be possible for assesses to understand their tax liability in simple manner and easy to follow compliance without getting into the complications of deductions and exemptions.

The provisions and rules of the Income tax have become very complicated and difficult to understand in view of the various deductions and exemptions given under the Act. The intention of the Government was to simplify the provisions so that a common tax payer can easily understand it for making simple compliance. The Government is primarily of the opinion that if the deductions/exemptions which involve complicated calculations are removed, then the compliance becomes more simple and easy to adopt. Hence the Finance Act, 2020 have done away with the complicated tax deductions and provisions making it simple for the taxpayers to understand and comply without any difficulty. There is no longer a need to approach tax consultants for their advice when the understanding is easy and application is simple, thereby reducing the unneeded compliance costs. However, by removing many of the deductions and exemptions in the new tax regime, although the Government attempted to make it simpler for the tax payers to comply, the taxable incomes levels have increased in certain cases make the tax burden heavier compared to the old tax regime.

Under the new tax regime, the tax payers will be left with more disposal income in their hands as they need not have to put their savings in various tax saving schemes and plan their own savings in the best possible ways without getting into the income tax complications for tax breaks.(Source : Reference 7 : A. P Rao and Dr. Shubhra Aanand : TIJER ISSN2349-9249 February 2024, Volume 11, Issue 2.)

2. Analysis and Discussion :

2.1 Current ITR filing trends which reflect the compliance:

Chart showing the number of tax payers and corresponding tax returns filed :Compliance ratio : for individual tax payers only.

Year	Number of taxpayers	Number of taxpayers filing the returns	Percentage of tax payers filing the returns
AY 2018-19	8,04,45,511	5,95,44,767	74.02%
AY 2019-20	8,55,61,788	6,11,30,366	71.44%
AY 2020-21	7,79,90,888	6,31,71,013	81.00%
AY 2021-22	8,25,04,957	6,54,61,868	79.34%
AY 2022-23	8,90,89,795	6,96,90,925	78.22%

Findings:

1. Compliance ratio which was 81.00% for AY20-21 has decreased to 79.34% in AY 2021-22 and further down to 78.22% in AY 2022-23.
2. However, for the earlier years AY 2019-20, the compliance ratio was 71.44% which jumped to 81.00% in AY20-21. Thereafter it has slightly declined.
3. It is amply clear that the new direct individual tax regime has no impact on increasing the tax compliance since the percentage of compliance has reduced during the last three years.

2.2 Number of persons filing returns and those with zero tax liability					
Financial Year	**Returns filed**	**Zero Tax liability returns**	**Percentage of total returns**	**%age increase in returns**	**%age increase Zero tax returns**
2019-20	**6.48**	**2.9**	**44.75**		
2020-21	**6.72**	**4.85**	**72.17**	**3.70**	**67.24**
2021-22	**6.94**	**5.05**	**72.77**	**3.27**	**4.12**
2022-23	**7.4**	**5.16**	**69.73**	**6.63**	**2.18**
Source : Loksabha starred question No. 45 dated 24th July, 2023.					

Findings:

1. In the 2022-23, 7.4 crores filed their income tax returns as compared to 6.48 crores in the year 2019-20.
2. During the last four years there has been an increase of 0.92 crores, indicating an increase of 14.20%,
3. Zero tax returns have increased substantially compared to the increase in the returns filed.
4. It follows that although the number of returns have increased however, the number of those paying tax have not increased to any significant extent. This may be due to the change in the exemption slabs And increase in the number of first time tax filers.
5. From the above figures it can also be inferred that in 2019-20, 3.58 crores tax return filers paid income tax whereas in the year 2022-23 only 2.24 crores paid income tax.
6. The above figures indicate that the impact of New individual Tax Regime was not reflected in any of the above figures.

2.3 Chart showing increase in individual returns and corresponding increase/decrease in revenue

(figures are in crores)

Years AY	No of return fliers	Increase over the last year	Per-centage Increase	Personal Tax Collection (₹)	Net increase in collections (₹)	Per-centage increase
17-18	5,09,89,970	-		4,20,084		
18-19	5,95,44,767	85,54,797	16.78	4,73,179	53,095	12.64
19-20	6,11,30,366	15,85,599	2.66	4,92,717	19,538	4.13
20-21	6,31,71,013	20,40,647	3.34	4,87,560	-5,157	-1.05
21-22	6,54,61,868	22,90,855	3.63	6,96,604	2,09,044	42.22
22-23	6,96,90,925	42,29,057	6.46	9,60,764	2,64,160	37.92

Source: www. Incometax.efiling@gov.in.

Analysis:

1. In the AY 18-19 (FY 17-18), the percentage increase in the revenue is less (12.64%) as compared to the percentage increase in the returns filed. (16.78%).
2. In the AY 19-20 (FY 18-19), the percentage increase in the revenue is higher (4.13%) as compared to the percentage increase in the returns filed (2.66%).
3. The above is followed by a negative growth in revenue in the next year (FY 19-20), the percentage increase in the revenue was (-)1.05 % as compared to the percentage increase in the returns filed.
4. The last two years have followed a substantial growth in the revenue income as compared to the percentage increase in the returns filed.
5. In the financial year 20-21, the revenue increase in percentage was 42.22% as compared to the increase in the returns filed (3.63%)
6. In the financial year 21-22, the revenue increase in percentage has been 37.92% as compared to the increase in the returns filed i.e.6.46% for the same year.
7. It follows that in the financial year 21-22, the percentage in the returns filed has increased from 3.63% to 6.46%, although the revenue has decreased from 42.22% to 37.92%.

8. The above information clearly indicates that there has been no impact of the new tax regime in generation of more revenue.

2.4 Acceptance Level of New Tax Regime : Some Experts' Comments :

Tapati Ghose, Partner, Deloitte India, says till last year, just about 5% to 10% of employees across companies had opted for the new tax regime which is why the government had to make the changes to make it more attractive.

Standard deduction has been introduced under the new tax regime as well which is a positive move. Earlier, it used to be only in the regular regime or the old regime. Then, for the very high-income group, that is for those above five crores, there is a reduction in surcharge from 37% to 25% making the effective tax rate come down from 42.74% to 39% which makes it absolutely attractive in those levels of income.

But overall, it is not that all of these changes result in a positive outcome (Economic Times : Apr 11, 2023)

For the super rich, the Budget 2023 has reduced the surcharge rate from 37% to 25% under the new tax regime. So for those with incomes above Rs 5 crore, the effective tax rate will come down to 39% from 42.74%. However, it continues to be 42.74% under the old tax regime. (2 Feb 2023)

The introduction of the New Tax Regime has led to additional procedural complications at both employers' and chartered accountants' desks. "Most organisations and their HR departments feel maintaining employees' records on their choice between the two regimes increases the complexities and paperwork burden," says Prashant Singh, VP & Business Head - CPO, Teamlease Services.

Since the extended deadline for filing income tax returns for the assessment year 2021-22 is now over, Moneycontrol.com decided to take a dip-stick survey on whether the new tax regime option has attracted Indians due to the low tax structure.

Conversion Ratio in 2021

A cross-section of tax professionals informed Moneycontrol that only a small pie of their customer base opted for the new framework. "Two high networth individuals (HNIs) out of hundreds of clients have opted for the new tax regime," Karan Batra, Founder, Chartered Club reveals.

The lacklustre acceptance is not just in the national capital, but in other cities too.

Raju Shah, partner at R C S P H & Associates from Ahmedabad says, "Hardly 18-20 cases out of 700-plus clients have opted for the new tax regime. Such tax-payers have picked the new framework as they are not interested in investments and want a low effective tax rate. They simply base their decision on the net tax liability."

Tax professionals catering to the higher income group have hardly seen any takers for the new regime.

Vaibhav Sankla, Principal, Billion BaseCamp Family Office, says, "Those who claim deductions of at least Rs 2.5 lakh a year have stuck to the old tax regime, in our experience. All our HNI clients fall in this category."

But the layman hardly has any idea of what is beneficial. Neither is he planning the year ahead based on the regime.

"Instead of planning it in advance, individuals are comparing the two options at the end of the financial year and then selecting the regime based on low tax liability. In some cases, the younger population, which doesn't save in the tax-saving investments, is opting for the new tax regime," says, Paras Savla, partner at KPB & Associates.

Tax-payers who opted for the new regime did so to avoid locking money into section 80C investments, which come with a lock-in period. "They prefer to invest in FDs instead of locking into their investments for 3-5 years in tax saving instruments," says Batra, whose clients have taken the call to switch to the new regime after evaluating their final tax liability under both the regimes.

While the lower tax slab of 5 percent isn't available in the existing tax regime, the benefit isn't replicated in the higher slabs. "The new regime is better suited for lower income groups, freshers who may wish to avoid paperwork and pensioners," according to Sankla.

So, what is the income level where the NTR is suitable? "Freshers or those who earn less than Rs 7.5 lakh could find new regime beneficial. Those who earn more than Rs 10 lakh have largely chosen to stick to the old regime," recommends Singh of Teamlease Services.

The pandemic too has forced some to take shelter in the low tax, no deduction scheme. "Usually, those who have not invested, especially during COVID-19 period or have recently started earning and need funds instead of locking them in investments are opting for the new tax regime. Those who have a small home loan amount, too, consider the lower tax system," Batra observes.

While it is natural to select the regime currently suitable, it is also important to keep the future in mind while choosing the regime, especially if you are not a salaried individual. "Self-employed individuals who may want to take a hefty home loan in the future should avoid opting for the new tax regime as the tax deductions of home loan offer tremendous tax-saving opportunities, especially when a couple jointly takes a home loan," says Shah.

While salaried individuals can switch between the new and existing regime at the start of any year, self-employed can make a choice only once during the lifetime. "If the option to alter each year is offered to self-employed too, then the new tax regime could gain more traction as these business individuals can't predict their future income and can actually utilise the facility," says Batra.

Low awareness and advanced planning limit the attraction of New Tax Regime. The paperwork burden for corporates' administration teams is another challenge. "One of the reasons why the new system has found limited traction is that companies have not gone all out to create awareness. Organisations allow employees only one opportunity – at the beginning of the financial year – to choose a tax regime for the purpose of computing tax deducted at source (TDS). So, employees have to wait until return-filing to change their choice if they receive bonuses or mid-year hikes and find that their chosen regime is not beneficial," Singh elaborates.

If companies and the Central Board of Direct Taxes (CBDT) work to iron out these issues, then many more could benefit from the hassle-free system of the new regime. Filing a tax return too would be relatively simpler under the framework. (Source : KHYATI DHARAMSI AND PREETI KULKARNI FROM MONEY CONTROL).

2.5 Government efforts to make it more beneficial and attractive for the tax assesses.

Union Budget, 2023 : Important measures taken by the Government.

a. As per Union Budget, 2023, the Finance Minister has announced certain major changes which persuade the tax payers to follow the new tax regime instead of opting for old tax regime.
b. The benefit of standard deduction from salary was also extended under new tax regime.

c. The exemption of tax through the grant of tax rebate has been increased from 12,500 under section 87C to ₹ 25,000 under the new tax regime only. This benefit is not available under the old tax regime.
d. As a result of the above change, a tax payer having income upto ₹ 7,00,000, will have no tax liability. Whereas the rebate benefit under section 87C remains upto 12,500 for old tax regime, therefore those earnings not more than ₹ 5,00,000 need not have to pay tax under the old regime. However under the new tax regime the rebate is extended on an income upto ₹ 7,00,000 per annum. As a result those earning income upto ₹ 5,00,000 under old tax regime need not have to pay any tax , however under they will be liable for tax on **income** of ₹ 7,00,000 under old tax regime.
e. The new tax regime has been made as a default option which means that the tax payers who want to opt for the old tax regime will have to indicate their preference for old tax regime, otherwise by default they will be covered by new tax regime.
f. The surcharge rate which was as high as 37% has been reduced to 25% under new tax regime. This affects the tax liability of those tax payers earning more than ₹ 5 crores. As a result of this change, the overall tax rate has come down from 42.74% to 39%.

3. Conclusion:

1. New individual Direct tax regime has not resulted in increase in the revenue of the Government.
2. Zero tax returns filed have increased substantially over the period.
3. Corporate discussion focuses on the fact that there is no good response from the tax fliers and many have opted for the old tax regime.
4. The Government has take measures to ensure that the new tax regime for the financial year 2023-24 has been made more attractive for the tax fliers. The Government has given benefits in increasing the tax limit of Rs.7,00,000 with rebate only for the new regime. The results of the above measures are yet to follow in the current year of filing.
5. The new tax regime has been made as a default regime whereas old regime takes the status as an optional regime.
6. The tax compliance ratio has reduced over the last few years.

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