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New Tax Regimes in India: A Mile Stone Towards the Improvement in Indian Tax Administration System

Dr. J. Maju[1], Mahendra Ikhar[2]

[1]Assistant Professor, Department of Education, St. Thomas College, Bhilai
[2]Assistant Professor, Dept. of Management Studies, St. Thomas College, Bhilai

Abstract

The new tax regime was introduced by govt. of India in the union budget of 2020. An average individual in India is not at all interested to pay Income Tax keeping the deep mindset that the taxation system in the country is not beneficial to individual tax payers. Now the question is that what can be the pattern of tax regime to increase the number of individual tax payers as well as to put less burden of tax payments on individuals. The old tax slab was beneficial in the sense that it was providing many deductions to reduce the taxable income and to increase the disposable income subject to fulfilling certain terms and conditions of income tax. The new tax regime is not providing the deductions but it is simplifying and reducing the tax slabs which lead to lesser tax liability as compared to old regime. Finally the objective of an individual is to accomplish life goals and protecting family's future. The New Tax Regime in India, introduced in the Union Budget of 2020 by Finance Minister Nirmala Sitharaman, aims to simplify tax compliance and enhance disposable income for individuals, particularly within the middle class. This reform has garnered attention for raising the income threshold for tax exemption to ₹3 lakh, effectively eliminating income tax for low-income earners, while also revising tax slabs that provide significant relief to middle-income households earning up to ₹12 lakh annually. Notably, the introduction of a standard deduction of ₹75,000 for all taxpayers marks a pivotal shift from the previous system, which relied heavily on numerous deductions and exemptions, thus streamlining the tax filing process and reducing the overall tax burden. The New Tax Regime's impact on the middle class is projected to be profound, with estimates suggesting an injection of approximately ₹5 lakh crore into the economy, contributing to increased consumer spending and potentially driving GDP growth beyond 8% for FY26.This initiative aligns with the government's broader strategy to stimulate economic activity amid rising living costs and employment challenges, reinforcing the middle class's critical role in India's economic framework. Furthermore, the dual tax structure allows taxpayers to choose between a lower tax rate with fewer deductions or the traditional model with higher rates and various exemptions, catering to diverse financial preferences and goals. However, the New Tax Regime has not been without controversy. Critics argue that while it simplifies tax compliance, it still burdens the middle-income group with relatively high effective tax rates and does not adequately address their financial aspirations. Concerns have also been raised regarding the government's ability to maintain revenue generation amidst significant tax cuts, with warnings that such measures could jeopardize essential public investments and long-term economic stability. Additionally, the choice between the old and new systems has led to confusion among taxpayers, complicating their decision-making process regarding financial

planning and investment strategies. In conclusion, while the New Tax Regime introduces notable benefits aimed at enhancing the financial well-being of the middle class in India, ongoing criticisms highlight the need for further reforms to ensure that the tax system is equitable and effectively supports this vital segment of the economy. The government's balancing act of stimulating growth while maintaining fiscal responsibility remains a critical challenge as India navigates its economic landscape.

Keywords: New Tax Regime, Disposable Income.

Key Features of the New Tax Regime

Introduction

The New Tax Regime, introduced by India's Finance Minister Nirmala Sitharaman in the Union Budget of 2020, represents a significant shift in the country's tax policy aimed at simplifying the tax filing process for individuals and encouraging compliance through lower tax rates and reduced deductions.

Simplification Objective

The primary objective of the New Tax Regime is to simplify tax filing for individuals. The old system involved numerous deductions and exemptions across various sections, such as Sections 80C and 80D, leading to a cumbersome process that often required extensive documentation and professional advice. By minimizing these complexities, the New Tax Regime aims to streamline tax compliance and make it more accessible to taxpayers.

Tax Structure

The New Tax Regime allows individuals to choose between two tax computation methods: one emphasizing lower tax rates with minimal deductions and another retaining higher tax rates but offering various exemptions. This dual structure is designed to cater to different taxpayer preferences.

Tax Slabs

As of the latest updates, the New Tax Regime has revised tax slabs to provide relief for middle-income earners.

Revised Tax Slabs for FY 2025-26:

- Up to ₹3 lakh: Nil
- ₹3 lakh to ₹6 lakh: 5%
- ₹6 lakh to ₹9 lakh: 10%
- ₹9 lakh to ₹12 lakh: 15%
- ₹12 lakh to ₹15 lakh: 20%
- Above ₹15 lakh: 30%

This structure effectively eliminates income tax for individuals earning up to ₹3 lakh and significantly lowers tax rates for those in the middle-income bracket, thus providing instant relief.

Standard Deduction

The New Tax Regime has introduced a standard deduction of ₹75,000 for all taxpayers, irrespective of their income level. This is an important shift from the old regime, which offered various exemptions, including house rent allowances and medical expenditures.The standard deduction aims to simplify the tax process further by providing a straightforward deduction applicable to all, rather than requiring detailed documentation of various expenditures.

Benefits for the Middle Class

The new tax regime in India has introduced several significant benefits aimed at enhancing the financial well-being of the middle class, which is pivotal to the country's economic growth. One of the most notable changes is the raising of the nil personal income tax slab to ₹12 lakh, allowing individuals with an annual income up to this threshold to pay no income tax. This reform is anticipated to increase disposable income for a large segment of the population, which could stimulate consumer spending and overall economic activity.

Economic Impact

Economists project that this tax relief could inject approximately ₹5 lakh crore into the economy, leading to a notable increase in consumption growth from an initially estimated 7.2 percent for FY26 to nearly 12 percent. This surge in private consumption is expected to contribute an additional 2.7 percent to GDP growth, pushing the overall economic expansion beyond 8 percent in FY26. The budget's focus on the middle class reaffirms its role as the backbone of the Indian economy, especially in light of the rising cost of living and mass layoffs that have adversely affected this demographic.

Additional Benefits

In addition to the raised exemption limit, the new tax structure simplifies the compliance process and reduces the tax burden on middle-class households, which historically contribute a significant portion of direct income taxes in India. The government has also announced provisions for tax benefits related to residential property investments, allowing individuals to claim nil valuation for two self-occupied properties, thus promoting growth in the real estate sector. Moreover, with middle-class households typically spending 80 percent of their additional disposable income, the anticipated financial relief is likely to lead to a 5-7 percent increase in disposable income for these families, which could correspond to a 6 percent rise in consumer spending on essential goods. Such changes are expected to not only boost demand but also encourage growth in sectors such as consumer durables and retail, which have faced challenges in recent years due to reduced consumption patterns.

Socio-Economic Implications

The emphasis on supporting the middle class reflects a broader governmental strategy to align economic policy with the aspirations and needs of this demographic. As the middle class continues to drive demand and social change, the revisions in tax policy aim to foster a more robust and equitable economic landscape. The government's commitment to fiscal prudence alongside these tax reforms indicates a strategic approach to stimulating growth while maintaining financial stability, which is crucial as the country prepares for upcoming elections and economic challenges.

Economic Implications

The introduction of a new tax regime in India has significant economic implications, particularly for the middle class. The coexistence of both the old and new tax systems adds complexity to fiscal policy management, necessitating careful monitoring of revenue projections and the effectiveness of government policies. As disposable incomes rise due to tax benefits, consumer spending is expected to increase, thereby stimulating demand in various sectors, including electronics and consumer durables. Analysts predict that enhanced disposable income will particularly benefit those in the entry to mid-segment product range, as evidenced by expectations for increased sales in items like mass appliances and affordable electronics. This increase in consumer sentiment could lead to higher production rates among manufacturers, supporting economic growth through improved capacity utilization. Furthermore, as the economy evolves, refinements to the tax regime are anticipated, which may include the gradual phasing out of the old system. Such changes could have profound impacts on tax planning strategies for both individuals and businesses. Suman Chowdhury, Chief Economist at Acuite Ratings & Research, emphasizes that reviving urban demand and stimulating private sector investment will be crucial for GDP growth, suggesting potential policy tweaks that may provide additional fiscal benefits to stimulate investment in technology and innovation.

Criticisms and Challenges

As the new tax regime in India unfolds, criticisms and challenges have surfaced regarding its effectiveness and fairness, particularly for the middle class. One major concern is the high taxation structure that continues to burden the middle-income group, leading to significant dissatisfaction among taxpayers. Finance experts, including influencer Akshat Shrivastava, have emphasized the need for an overhaul of the current tax approach, advocating for a broader tax base and reduced tax rates to alleviate the pressure on middle-class families. Despite some tax reforms aimed at simplification, many believe these efforts have fallen short. Critics argue that the government has historically neglected the middle class's aspirations, citing past regimes that failed to provide adequate tax relief while imposing heavy burdens. For instance, previous finance ministers have made dismissive remarks about middle-class concerns, further alienating this demographic. The removal of indexation benefits in real estate has raised fears about a resurgence of black money, complicating the already intricate tax landscape. Furthermore, while the new regime presents dual options for taxpayers, the complexity surrounding the choice between the old and new systems has led to confusion. Taxpayers are often forced to make hurried decisions about their investments without thoroughly understanding their risk profiles or financial goals, as tax-saving measures sometimes distort rational financial planning. The new tax regime also poses a challenge for the government's fiscal policy. While intended tax cuts aim to boost disposable income and consumption, they risk leading to a substantial revenue loss—estimated at around ₹1 trillion in direct taxes and ₹26 billion in indirect taxes. Critics argue that this could result in cuts to crucial capital expenditure (capex), essential for long-term infrastructure and economic growth. The uncertainty surrounding consumer behavior in response to increased disposable income further complicates the situation, as it remains unclear whether households will prioritize spending or saving in an unpredictable economic climate. Ultimately, while the new tax regime may offer some benefits, the criticisms surrounding its implementation and the inherent challenges it faces indicate that significant reform is still needed to truly support the middle class in India.

Resources for Taxpayers

Digital Tools and Services

The Indian government has embraced technology to enhance taxpayer compliance and accessibility. The

Central Board of Direct Taxes (CBDT) is leveraging artificial intelligence and data analytics to streamline tax processes, making it easier for taxpayers to navigate their obligations. This includes collating information from various electronic data sources and making it available to taxpayers to aid in accurate filing. Taxpayers can access several online platforms that provide resources for filing Income Tax Returns (ITRs), including guides on compliance and updates on new regulations. This digitalization aims to reduce the burden of tax filing and improve overall transparency within the system.

Understanding the Tax Regime

Taxpayers can benefit from a clearer understanding of the differences between the Old and New Tax Regimes under the Income Tax Act, 1961. The New Tax Regime offers lower tax rates and fewer deductions, designed to simplify the tax structure and potentially increase disposable income for the middle class. The old regime, on the other hand, permits higher deductions and exemptions but often results in a more complex filing process. Resources such as comparative analyses and expert consultations can help taxpayers determine the most beneficial option for their financial situation.

Compliance Support

The CBDT has reported encouraging results from initiatives that encourage taxpayers to comply with their filing requirements. For instance, approximately 90,000 taxpayers who previously claimed incorrect deductions have revised their returns, contributing around ₹1,000 crore in taxes. Further more, the introduction of updated ITR forms and simplified procedures aims to minimize confusion and promote accurate reporting. Taxpayers are advised to keep comprehensive records of deductions and exemptions to ensure they are well-prepared for filing.

Financial Literacy Programs

To aid understanding and compliance, various organizations and institutions are implementing financial literacy programs that focus on taxation. These programs provide valuable insights into tax planning, the implications of different tax regimes, and strategies for maximizing tax benefits. Tax professionals are also available to assist individuals in navigating the complexities of tax filing, thereby enhancing compliance rates and ensuring that taxpayers can make informed decisions regarding their financial planning.

Government Initiatives

The government has introduced measures aimed at providing relief to specific taxpayer groups, including senior citizens and middle-class individuals, through rationalized TDS (Tax Deducted at Source) and TCS (Tax Collected at Source) provisions. This is particularly beneficial for those making foreign remittances, as it helps to improve cash flow for education and other expenses. As part of ongoing reforms, further simplifications in tax policy are anticipated, which will continue to support taxpayers in managing their obligations effectively. By utilizing these resources, taxpayers can enhance their understanding of the tax landscape and improve their compliance with the evolving tax regimes in India.

Conclusion

Income Tax is the Direct Tax and it is the most important and essential source of Income of Central Government. The growth and infrastructure development of a country is dependent on the financial capabilities of the government of that country. Government of India introduced the New Tax Regime to provide more flexibility in the payment system. Another objective of government is to motivate more and more individuals to pay fair tax to the government so that increase in direct tax collection will increase the funds of government and in return these funds will be utilized for the growth and development of country. The New Regime provides easy understanding of taxation to the tax payers and they can clarify all their issues very easily. The Central Board of Direct Tax and Central Government are organizing more and more awareness programs for public for the easy understanding of taxation policy. With the help of New Tax Regime we the people of India can contribute significantly in the welfare of the country.

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