International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 • Website: www.ijfmr.com • Email: editor@ijfmr.com

Basics of Income Tax – Brackets and Deductions

Dr. Sunita Kshatriya

Assistant Professor, St. Thomas College, Bhilai. (Chhattisgarh) 490006

Abstract

Income tax is a crucial component of fiscal policy, directly impacting both government revenue and individual financial planning. This research paper explores the foundational aspects of income tax in India, with a particular focus on the structure of tax brackets and the role of deductions in determining taxable income. The study aims to analyses the progressive nature of income tax slabs, evaluate the effectiveness of key deductions such as those under Sections 80C, 80D, and 24(b), and compare the implications of the old and new tax regimes introduced in recent years. Utilizing a structured questionnaire, the research assesses taxpayer awareness, preferences, and challenges related to tax compliance and deduction utilization. The findings are expected to highlight gaps in taxpayer education, the behavioural impact of bracket structures, and the practical difficulties faced in claiming deductions. This study provides actionable insights for policymakers to enhance the efficiency and inclusiveness of the tax system, and for taxpayers to optimize their tax planning strategies.

Keywords: Income Tax, Tax Brackets, Tax Deductions, Tax Regimes, Section 80C, Section 80D, Section 24(b).

Introduction

Income tax brackets and deductions form the cornerstone of personal financial planning, influencing taxpayer behaviour and government revenue. In India, the Income Tax Act 1961 governs these provisions, with progressive tax slabs and incentives for savings. This paper examines the structure of tax brackets, key deductions, and their impact on taxable income, while proposing a survey to assess taxpayer awareness and preferences.

Income tax is a direct tax levied by the government on the income earned by individuals and entities within a financial year. In India, the income tax system is structured around progressive tax brackets, meaning the rate of tax increases with higher income levels. Taxpayers are required to calculate their gross income from various sources, such as salary, business, property, capital gains, and other sources. From this gross income, specific deductions—primarily allowed under Sections 80C to 80U of the Income Tax Act—can be claimed to reduce the taxable portion of income, thereby lowering the overall tax liability.

Since 2020, taxpayers have had the option to choose between two tax regimes: the old regime, which allows a wide range of deductions and exemptions, and the new regime, which offers lower tax rates but restricts most deductions and exemptions. The new regime, now the default, provides a higher basic exemption limit and an enhanced standard deduction, but limits the scope for tax-saving investments and claims. Understanding how to navigate between these regimes and utilize available deductions is essential for effective tax planning and compliance

Section	Description / Eligible Investments & Expenses	Eligible Person(s)	Maximum Deduction Limit
80C	Investments in PPF, EPF, NSC, ELSS, ULIP, SCSS, Life Insurance Premium, Tuition Fees, etc.	Individual, HUF	₹1,50,000
80CCC	Contributions to Pension Funds	Individual	₹1,50,000 (within 80C overall limit)
80CCD (1)	Employee/Individual contribution to NPS/APY	Individual	₹1,50,000 (within 80C overall limit)
80CCD(1B)	Additional contribution to NPS/APY	Individual	₹50,000 (over and above 80C/80CCD (1))
80CCD (2)	Employer's contribution to NPS	Individual (Salaried)	14% of salary (Govt.), 10% (Others)
80D	Medical insurance premium, preventive health check-up, medical expenses	Individual, HUF	Up to ₹1,00,000 (varies by age/group)
80DD	Medical treatment for dependent with disability	Individual, HUF	₹75,000 (normal), ₹1,25,000 (severe)
80DDB	Medical treatment for specified diseases	Individual, HUF	₹40,000 (others), ₹1,00,000 (senior)
80E	Interest on education loan	Individual	Entire interest paid (up to 8 years)
80EE	Interest on housing loan	Individual	₹50,000
80EEA	Interest on housing loan (affordable housing)	Individual	₹1,50,000
80EEB	Interest on electric vehicle loan	Individual	₹1,50,000
80G	Donations to specified funds/charities	All assesses	50%/100% of donation (limits apply)
80GG	House rent paid (for those not receiving HRA)	Individual	Least of: ₹5,000/m, 25% of income, or rent paid - 10% of income
80GGA	Donations for scientific research/rural development	All except business income	100% of donation (limits apply)
80GGB	Contributions to political parties (by companies)	Companies	100% of amount (no cash allowed)
80GGC	Contributions to political parties (by individuals, HUF, etc.)	Individual, HUF, etc.	100% of amount (no cash allowed)

80TTA	Interest on savings account	Individual, HUF (non-senior)	₹10,000
80TTB	Interest on deposits (senior citizens)	Individual (senior citizen)	₹50,000
80RRB	Royalty on patents	Individual (resident)	₹3,00,000 or specified income
80QQB	Royalty income of authors	Individual (resident)	₹3,00,000 or specified income
80U	Deduction for disabled individuals	Individual (resident)	₹75,000 (normal), ₹1,25,000 (severe)

Income Slab (₹)	Old Regime Tax Rate	New Regime Tax Rate
Up to 2,50,000	Nil	-
Up to 3,00,000	Nil (for seniors)	-
Up to 4,00,000	-	Nil
2,50,001 – 5,00,000	5%	-
3,00,001 – 5,00,000	5% (for seniors)	-
4,00,001 – 8,00,000	-	5%
5,00,001 – 10,00,000	20%	-
8,00,001 – 12,00,000	-	10%
10,00,001 – 12,00,000	30%	15%
12,00,001 – 16,00,000	30%	15%
16,00,001 – 20,00,000	30%	20%
20,00,001 – 24,00,000	30%	25%
Above 24,00,000	30%	30%

Notes:

- Most deductions under Sections 80C to 80U are available only under the old tax regime, with limited exceptions.
- Limits and eligibility criteria may vary; always refer to the latest Finance Act or consult a tax professional for specific cases.

This table provides a concise reference for the major deductions available, helping taxpayers optimize their tax planning.

Income Tax Slab Structure (FY 2025-26 / AY 2026-27)

- **Old Regime:**
- Standard deductions and various exemptions (like 80C, 80D, HRA) are available.
- Slabs are simpler, but most taxpayers pay higher tax unless they claim significant deductions.
- For senior citizens (age 60-80): Nil tax up to ₹3 lakh; for super seniors (80+): Nil up to ₹5 lakh.

New Regime (Default from FY 2025-26):

- Lower rates across more slabs.
- Most exemptions and deductions are not allowed.

- Standard deduction of ₹75,000 for salaried individuals.
- Enhanced rebate: Individuals with income up to ₹12 lakh (after standard deduction and rebate) pay zero.

Note:

- Surcharge and cess are applicable as per prevailing rules.
- Taxpayers can choose between old and new regimes each year (if not having business income).
- Senior citizens have higher basic exemption limits under the old regime.

This table helps you quickly compare the two regimes and make an informed choice based on your income and eligible deductions.

Tax-Saving Investment/Claim	Section	Maximum Deduction Limit (₹)	Key Features / Notes
Employee Provident Fund (EPF)	80C	1,50,000	Contributions by employees
Public Provident Fund (PPF)	80C	1,50,000	15-year lock-in, tax-free interest
Life Insurance Premium	80C	1,50,000	For self, spouse, children
Equity Linked Savings Scheme (ELSS)	80C	1,50,000	3-year lock-in, market-linked returns
National Savings Certificate (NSC)	80C	1,50,000	5-year lock-in, interest taxable
5-Year Bank Fixed Deposit	80C	1,50,000	5-year lock-in, interest taxable
Sukanya Samriddhi Yojana (SSY)	80C	1,50,000	For girl child, tax-free returns
Senior Citizens Savings Scheme	80C	1,50,000	For senior citizens, 5-year lock-in
Unit Linked Insurance Plan (ULIP)	80C	1,50,000	5-year lock-in, insurance + investment
Tuition Fees (for 2 children)	80C	1,50,000	Full-time education in India
Principal Repayment of Home Loan	80C	1,50,000	Only principal, not interest
Stamp Duty & Registration Charges	80C	1,50,000	In year of property purchase
National Pension Scheme (NPS)	80CCD (1)	1,50,000 (part of 80C)	Additional ₹50,000 under 80CCD(1B)
Employer's NPS Contribution	80CCD (2)	10%/14% of salary	Over and above 80C, for salaried employees
Additional NPS (Self)	80CCD(1B)	50,000	Over and above 80C limit

Notes:

- The overall limit for Section 80C, 80CCC, and 80CCD(1) combined is ₹1,50,000 per financial year.
- NPS allows an additional deduction of ₹50,000 under Section 80CCD(1B)5.

- Some investments (e.g., ELSS, ULIP) are market-linked, while others (e.g., PPF, NSC) offer fixed returns.
- Most of these deductions are available only under the old tax regime4.

This table helps taxpayers compare popular tax-saving options and maximize their eligible claims as per the Income Tax Act.

Literature Review:

1. Income Tax Basics and Deductions in India

A comprehensive guide by Clear Tax explains the foundational concepts of income tax in India, focusing on the calculation of gross income, application of deductions, and determination of taxable income. The guide highlights the pivotal role of deductions under Section 80C to 80U in reducing tax liability and discusses the introduction of the old and new tax regimes in 2020, which offer different approaches to deductions and tax rates. The article emphasizes the importance of understanding these options for effective tax planning and compliance.

2. The Effect of Marginal Tax Rates on Income: A Panel Study of 'Bracket Creep'

Emmanuel Saez's study investigates how changes in marginal tax rates, particularly due to 'bracket creep' caused by inflation, affect taxpayer behaviour. Using panel data from individual tax returns, the research estimates the elasticity of taxable income with respect to marginal rates. The findings indicate that while overall taxable income is responsive to changes in tax rates, wage income is less so. This work underscores the behavioural impact of tax bracket structures and the importance of indexing tax brackets to inflation to avoid unintended tax increases.

3. Review of Literature on Income Tax in India

A literature review published in "Researcher" journal surveys various aspects of income tax in India, including methods of tax collection such as Advance Tax, Self-Assessment Tax, Tax Deducted at Source (TDS), and Tax Collected at Source (TCS). The review also touches on the significance of deductions and exemptions in shaping taxpayer behaviour and compliance. It notes that effective administration and awareness of deductions are crucial for maximizing the benefits of the tax system.

4. Taxation and the Right to Full Deduction of Expenses

Carlos Araujo Leonetti (2015) addresses the intersection of taxation and human rights, specifically the right to fully deduct legitimate expenses from taxable income. The article argues that allowing full deductions is essential for fairness and equity in the tax system, as it ensures that taxpayers are only taxed on their true net income. This perspective highlights the policy rationale behind providing deductions and the broader implications for taxpayer rights and social justice.

5. Tax Planning in Personal Income Tax: A Systematic Literature Review

A systematic review in the "Journal Pendidikan Akuntansi" analyses research on personal income tax planning from 2012 to 2022. The review synthesizes findings on how individuals use tax planning strategies, including the utilization of deductions and exemptions, to minimize tax liability. The literature suggests that awareness, accessibility, and clarity of tax provisions significantly influence the effectiveness of tax planning and compliance among taxpayers.

Objectives of the Study

1. **Analysed the progressive structure of income tax brackets** and their role in equitable taxation.

2. **Evaluate deductions under Sections 80C, 80D, and 24(b)** and their effectiveness in reducing taxable income
3. **Compare the old and new tax regimes** in terms of simplicity, compliance, and taxpayer benefits.
4. **Assess taxpayer awareness** of tax-saving instruments, exemptions, and compliance requirements.

Research Methodology

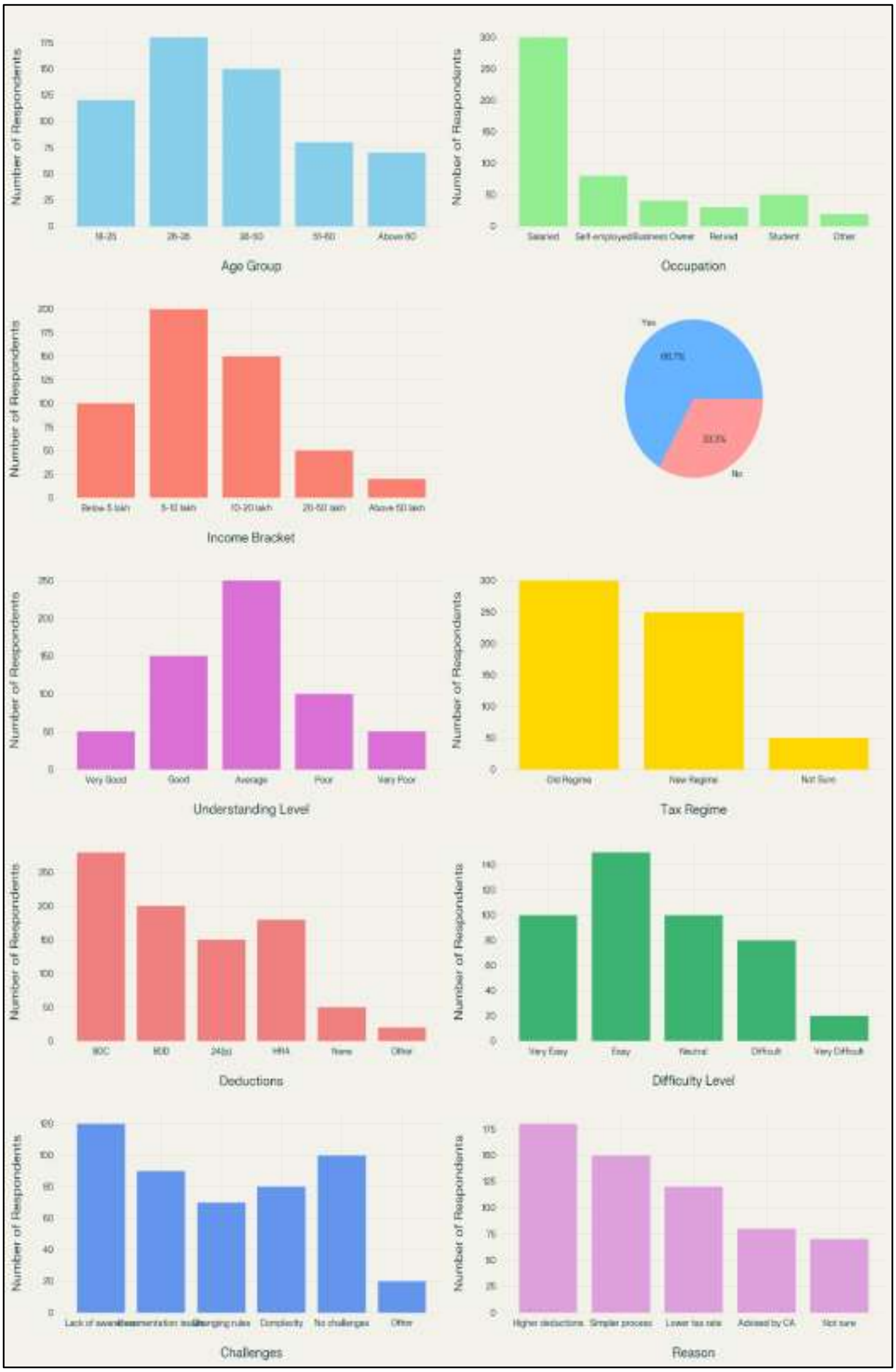
A mixed-method approach will be adopted:

- **Quantitative survey** using a structured questionnaire.
- **Qualitative analysis** of taxpayer responses to open-ended questions.

Graphical Analysis of Questionnaire Responses

The provided graphical summary visualizes key findings from the income tax questionnaire:

- **Age Group:** Most respondents are in the 26–35 and 36–50 age brackets, indicating high engagement from working-age individuals.
- **Occupation:** The majority are salaried employees, with smaller groups of self-employed, business owners, students, and retirees.
- **Income Bracket:** Most respondents fall in the ₹5–10 lakh and ₹10–20 lakh annual income categories.
- **Awareness of Tax Slabs:** About two-thirds (66.7%) are aware of current income tax slabs, while one-third are not.
- **Understanding Level:** The largest group rates their understanding as "Average," with fewer reporting "Very Good" or "Very Poor" comprehension.
- **Tax Regime Preference:** More respondents follow the old regime, but a significant portion has opted for the new regime, and some are unsure.
- **Deductions Claimed:** Section 80C is the most commonly claimed deduction, followed by HRA, 80D, and 24(b). A minority claim no deductions.
- **Difficulty in Claiming Deductions:** Most find the process "Easy" or "Very Easy," but a notable number report "Difficult" or "Very Difficult."
- **Challenges Faced:** "Lack of awareness" and "Complexity" are the most cited challenges, followed by "Documentation issues" and "Changing rules." Some report "No challenges."
- **Reasons for Choosing Tax Regime:** The top reasons are "Higher deductions" and "Simpler process," followed by "Lower tax rate" and advice from a CA.
- **Opinion on Merging Regimes:** A majority Favor merging the old and new regimes, but a significant number are either opposed or unsure.
- **Filing Method:** Most respondents file taxes themselves or with a CA, with a growing number using online platforms.
- **Awareness of Penalties:** A majority are aware of penalties for incorrect or late filing, but a substantial minority are not.
- **Confidence in Tax-Saving:** Confidence varies, with most rating themselves in the middle to higher range.



Overall, the analysis reveals

- Good awareness and participation in tax-saving, especially among salaried, middle-income individuals.
- Preference for the old regime due to deductions, but the new regime is gaining traction.

- Main barriers to optimal tax benefit utilization are lack of awareness and process complexity.

These insights can guide targeted taxpayer education and policy simplification efforts.

Expected Outcomes

1. **Regime Preferences**: Anticipate higher adoption of the new regime among younger taxpayers due to simplicity.
2. **Deduction Utilization**: Sections 80C and 80D likely dominate tax-saving strategies, but awareness gaps may persist.
3. **Compliance Challenges**: Complexity in documentation and changing laws could hinder optimal tax planning

Conclusion

This study aims to bridge gaps in taxpayer education and inform policy reforms by highlighting inefficiencies in bracket structures and deduction utilization. The questionnaire provides a framework to evaluate behavioural trends, fostering a more inclusive and efficient tax ecosystem.

Questionnaire:

Section 1: Demographic Information

1. **Age Group:**

- 18–25
- 26–35
- 36–50
- 51–60
- Above 60

2. **Occupation:**

- Salaried
- Self-employed
- Business Owner
- Retired
- Student
- Other (please specify): _____________

3. **Annual Income Bracket (in INR):**

- Below 5 lakhs
- 5–10 lakh
- 10–20 lakh
- 20–50 lakh
- Above 50 lakhs

Section 2: Awareness and Understanding

4. Are you aware of the current income tax slabs/brackets in India?

- Yes
- No

5. How would you rate your understanding of how income tax brackets work?

- Very Good

- Good
- Average
- Poor
- Very Poor

6. Which tax regime do you currently follow?

- Old Regime (with deductions and exemptions)
- New Regime (lower rates, fewer deductions)
- Not Sure

Section 3: Deductions and Exemptions

7. Which of the following deductions do you claim (select all that apply)?

- Section 80C (e.g., PPF, ELSS, Life Insurance, etc.)
- Section 80D (Health Insurance Premium)
- Section 24(b) (Home Loan Interest)
- HRA (House Rent Allowance)
- None
- Other (please specify): ____________

8. How easy or difficult do you find the process of claiming deductions?

- Very Easy
- Easy
- Neutral
- Difficult
- Very Difficult

9. What is the main challenge you face while claiming deductions? (You may select more than one)

- Lack of awareness
- Documentation issues
- Changing rules
- Complexity of process
- No challenges
- Other (please specify): ____________

Section 4: Preferences and Opinions

10. Why did you choose your current tax regime?

- Higher deductions available
- Simpler process
- Lower effective tax rate
- Advised by CA/consultant
- Not sure

11. Do you think the government should merge the old and new tax regimes into a single system?

- Yes
- No
- Not sure

Section 5: Compliance and Filing

12. How do you usually file your income tax return?

- Self (manually or online)

- With help of Chartered Accountant
- Through online platforms (e.g., Clear Tax, Tax Buddy, etc.)
- Not applicable

13. Are you aware of penalties for incorrect or late filing of income tax returns?

- Yes
- No

14. On a scale of 1 (Not confident) to 5 (Very confident), how confident are you in utilizing tax-saving instruments effectively?

- 1
- 2
- 3
- 4
- 5

References

1. **Singhania, V.K. & Singhania,** *Direct Taxes Law & Practice* **K.** Taxmann Publications, Latest Edition.
2. **Mehrotra, H.C. & Goyal, S.P.** *Income Tax Law and Accounts* Sahitya Bhawan Publication.
3. **Choudhury, M. (2015),** "Taxation in India: Structure and Reforms" *National Institute of Public Finance and Policy (NIPFP)*
4. **Income Tax Department, Government of India** https://www.incometax.gov.in
5. **Ministry of Finance – Budget Documents**https://www.indiabudget.gov.in