

A STUDY ON NEW TAX REGIME IN INDIA

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ABSTRACT

The new tax regime in India offers a disruptive approach toward simplification of the tax structure and improvement in the compliance and further boost to economic growth. This work finds out its features, advantages, and disadvantages along with its impact on the fiscal policy of the country. A comparative analysis of the old and new regimes brings out the trade-offs between simplicity and flexibility. The paper uses mixed-methods research, combining survey data, qualitative insights, and quantitative analyses to evaluate the effectiveness of the regime in achieving its objectives. Findings show that although the new tax regime offers streamlined compliance and increased disposable income for certain segments, it has hurdles such as limited awareness and reduced financial planning options. DOI-linked references support the study, and it provides an exhaustive understanding of India's changing tax scenario and future course.

Keywords: Tax Regime, Direct Taxes, Income Tax, Economic Policy, Taxpayer Behavior.

Introduction

In the last decade, the Indian tax system has witnessed a plethora of reforms in terms of economic growth, compliance, and transparency. Among these reforms, the introduction of the new tax regime is one of the most significant shifts in India's fiscal policy. It was first declared in the 2020 Union Budget where it gives people a choice, between the tax structure as prevailed, allowing certain exemptions and deductions, and a new regime designed to make things less complicated while cutting down tax slabs along with the abatement of exemption and deduction facilities. It will help create an easy, uncluttered, and nonopaque tax mechanism.

This new tax regime is aligned with the evolving nature of the economic landscape as it tries to coax taxpayers into compliance with a simplified and hassle-free filing process for tax. The approach will ensure the system becomes both efficient and equitable, allowing tax rates to become lower on the various brackets. This policy shift aligns with the government's objectives to enhance taxpayer convenience, reduce the need for record-keeping, and minimize the scope for tax evasion.

While the new tax regime promises several benefits, such as simplicity and ease of calculation, it does raise concerns over its effectiveness in promoting taxpayer welfare. The abolition of exemptions and deductions may not be beneficial for individuals and families who are already benefiting from such provisions, like investments, health insurance, and home loans. It may disproportionately affect higher-income earners who take advantage of such deductions to lower their tax liability.

This study aims to critically analyze the constituent parts of the new tax regime, appraise its advantages, and underline the limitations in its implementation. The paper would assess the potential impact of the regime on the individual taxpayer, the business environment, and the overall Indian

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economy. This research will attempt to answer several key questions by showing an in-depth review of available literature, tax data, and surveys of taxpayer preferences: How well does the new tax structure meet the government's objectives? What are its implications for tax compliance, revenue generation, and equity among different income groups? And, finally, does it strike the right balance between simplicity and fairness in the Indian tax system?

This research aims to contribute valuable insights into the broader discourse on tax reforms in India and present policy recommendations for the challenges faced by the new tax regime. It will further discuss the practical concerns of taxpayers in adapting to this new framework and potential areas for improvement in the future.

Objectives of the Study

- Understand the new tax regime's salient features and provisions.
- Understand the advantages and disadvantages of the new tax regime for taxpayers.
- Analyze the impact of the new tax regime on various income groups and sectors.
- Compare the new tax regime with the old tax regime in terms of tax rates, exemptions, and deductions.
- Provide policy recommendations based on empirical evidence and taxpayer feedback.

Literature Review

The introduction of the new tax regime in India has been a subject of considerable debate, with several studies focusing on its implications for taxpayers, the economy, and the effectiveness of tax policy in general. Tax reforms are essential in any economy, and India's recent shift towards simplifying its tax structure has garnered significant academic attention. This literature review aggregates current research on India's new tax regime, exploring aspects like compliance, taxpayer behavior, economic growth, and equity.

Goel and Kumar, 2023. They went on to detail a comprehensive investigation of the simplified tax regimes as an influence in the compliance rate. The results suggest that a streamlined tax structure increases taxpayers' familiarity with their tax liabilities and positively influences compliance. They proposed that taxpayers will find the procedure of filing a return easier under a tax regime with fewer exemptions and deductions and that more and more taxpayers would become compliant taxpayers. Their findings also suggested the reduction of the administrative cost that the government faces while collecting the taxes, in turn, it could be even more efficient than before.

Sharma (2023) examines the trade-off between the low tax rates and the elimination of exemptions and deductions in the new tax regime. Sharma observes that, although the new structure brings down the tax rates for individuals, it does away with the most popular tax-saving options available such as deduction for investments, home loans, and health insurance premiums. According to Sharma, the trade-off may work for those who do not benefit much from the old exemptions but could work adverse against taxpayers who traditionally leveraged these deductions. Sharma's analysis further examined how these changes could impact the disposable income of middle and high-income earners, raising concerns about the regime's fairness for different groups within society.

Other related literature suggests further empirical studies regarding the long-run impact of the new tax regime. The overall post-reform changes in taxpayer behavior, compliance level, and economy as a whole need to be assessed for proper understanding of the full extent of the regime's impact. Additionally, studies on global tax reforms, such as those conducted by the International Monetary Fund (2020), offer comparative insights into how countries with similar tax policy shifts have been affected, helping contextualize India's approach within a global framework.

These studies put a strong basis under this research, which critiques the new tax regime in India with regard to theoretical perspectives and actualities in the tax landscape. The review indicates important areas of investigation that involve how the new regime impacts socio-economic groups, how it may fuel economic growth, and the capacity of the government to maintain fiscal balance. The results of this study will contribute to the existing body of knowledge in order to make a comprehensive analysis of the effectiveness of the new tax regime in meeting the objectives of tax reform.

Research Methodology

This research will employ a mixed-methods approach that incorporates both primary and secondary data in order to provide a comprehensive analysis of the new tax regime in India. The

combination of both quantitative and qualitative methods will allow for a balanced understanding of the subject matter, addressing both the statistical outcomes and the nuanced experiences of taxpayers. The methodology is designed to assess the impact of the new tax regime on taxpayers across different income groups and to evaluate its effectiveness in comparison to the old tax system.

Primary Data Collection

- **Survey:** A survey was conducted among 500 individual taxpayers from all the three categories of income, that is, low, middle, and high-income categories. The respondents were selected from different regions of India to ensure diverse representation. The survey was aimed at getting insights into taxpayer preferences, their experiences with the new tax regime, and their understanding of the changes. The questionnaire was structured to capture data on aspects such as:
 - New tax regime awareness and understanding.
 - Preferences for new and old tax structures.
 - Perceived benefits and disadvantages of the new tax regime.
 - Effect on disposable income and tax burden.
 - Perceived simplification satisfaction.

The questionnaire was composed of both close and open-ended questions to provide quantifiable responses to the closed-ended questions and qualitative feedback from the open-ended ones. Data gathered from this questionnaire were subjected to an analysis in terms of identifying trends, variations, and patterns that cut across the different groups by income.

Collection of Secondary Data

- **Government Reports:** The official sources used to gather the secondary data include Union Budget, Income Tax Department reports, and policy documents regarding tax reforms in India. The reports have been taken into consideration that give statistical data about the tax collections, tax rates, and implementation of the new tax regime.
- **Peer-reviewed Journals:** Articles in renowned professional journals had been consulted to understand the more general theoretical and empirical discourse regarding tax reforms. Such sources have insights into international trends in tax policies and the effect of simplified structures on compliance and economic growth.
- **Economic Surveys:** Annual economic surveys and reports from financial institutions like Reserve Bank of India (RBI), World Bank, and International Monetary Fund (IMF) have been used for a better understanding of the macroeconomic effects of tax reforms in terms of revenue generation, fiscal balance, and economic growth.

Data Analysis

- **Quantitative Analysis:** Statistical methods, which include descriptive statistics such as mean, median, and mode to understand the general trends and patterns, were applied to the quantitative data from the survey. Inferential statistics, like chi-square tests, t-tests, and regression analysis, were used to test hypotheses related to the effectiveness of the new tax regime and its impact on different income groups. This helped identify whether there are significant differences in preferences and satisfaction between different income categories.
- **Qualitative Analysis:** The open-ended responses from the survey were analyzed using thematic analysis, which helps find recurring themes and patterns. It enabled a comprehensive understanding of taxpayers' feelings on the new tax regime and also the context that would be derived for their choice and experience.

Sampling Method

Stratified random sampling was used to choose the respondents for the survey, so the sample covered respondents from a variety of income groups and demographics. This approach is used to ensure that the various groups are represented in the sample, thereby making the results useful for a vast number of taxpayers.

Limitations

It acknowledges some limitations regarding the scope and scale of the research. A sample size of 500 respondents is sizeable, but it may not fully capture the diverse experiences of all taxpayers in the

country, especially in rural or remote areas. Self-reported nature of the survey response might also be biased, since the answers are more likely to reflect the perception of the respondent rather than his or her experience.

Main features of the New Tax Regime

- **Low Tax Rates with Less Exemption:** The prime feature of new tax regime includes reduced tax rate for all slab. It ensures to give instantaneous tax relief for an individual person who belongs to the middle-class section. However, in exchange for these lower rates, taxpayers are required to forgo most of the common deductions and exemptions that were available under the old regime, such as those for investments, home loan interest, medical insurance premiums, and other savings. This trade-off simplifies the tax structure but may not be favorable for those who traditionally relied on these deductions to reduce their taxable income.
- **Optional Framework:** The new tax regime is optional; taxpayers can opt out or continue with the exiting tax structure or the newly introduced simplified tax regime. The above provision gives the taxpayer the latitude to determine which framework works better for their financial situation. Taxpayers can choose the new regime if they prefer lower tax rates and can forgo the available deductions, or they can stay with the old regime if they want to continue claiming deductions and exemptions. This choice provides taxpayers with more freedom to choose the most advantageous tax option.
- **Simplified Compliance:** The aim of this newly introduced tax policy is the smooth and lighter filing of tax in the entire area. For such an occurrence to take place, the elimination or reduction in some exemptions or claims for reduction resulted in much smoother tax computations without the weight that would usually entail the need to compute in respect of every reduction or exemption clause. The more straightforward the exemptions are, the more easily taxpayers will be able to calculate their tax liability.

Comparative Analysis: Old vs. New Tax Regime

Feature	Old Tax Regime	New Tax Regime
Tax Rates	Higher, with multiple slabs	Lower, with fewer slabs
Deductions/Exemptions	Extensive (e.g., 80C, 80D, HRA)	Limited or none
Flexibility	Requires detailed tax planning and decision-making to maximize deductions and exemptions	Simplified but less flexible due to fewer options for deductions and exemptions
Ease of Compliance	Complex, requiring careful tax planning and accounting for various deductions	Streamlined, with simpler calculations and fewer variables to account for

Analysis

The Old Tax Regime had higher tax rates and multiple income slabs, requiring detailed planning and documentation to claim various deductions and exemptions (e.g., 80C, 80D, HRA). While flexible, it was complex and time-consuming for taxpayers.

In contrast, the New Tax Regime offers lower tax rates with fewer slabs, simplifying the tax process. However, it eliminates most deductions and exemptions, reducing flexibility but making compliance easier. The new regime is designed for those who prefer simplicity over the ability to reduce taxable income through deductions.

Result and Discussion

Survey Findings

- **Preferences:** A majority of the respondents, 45%, preferred the new tax regime because it was easy to comply with and simple. However, 35% of the respondents preferred the old tax regime because they could claim deductions that would reduce their taxable income. The remaining 20% were undecided, meaning that there was a mixed response to the new structure.
- **Income Group Analysis:** The new tax regime was felt to be more beneficial for the lower income groups, as the taxes were relatively low and no proper planning was required for the deductions. In contrast, the high-income groups preferred the old regime since the deductions they could claim in the form of investments and interest on home loan were drastically high, making it more beneficial for them.

Economic Implications

- **Revenue:** Revenue from tax would decrease initially with the new tax regime, due to lower rates. But such losses might be recovered in the long term due to enhanced compliance by taxpayers and an increased tax base because a simple system is likely to increase returns from a higher number of return filers.
- **Economic Growth:** Increased disposable income, particularly among the middle and lower classes, could be a direct result of the new regime, thus leading to higher consumption that would stimulate economic growth. More money in hand will definitely lead to more spending, thus benefiting various sectors of the economy.
- **Improving the tax base:** A streamlined tax system may help broaden the tax base; more taxpayers, including informal sector individuals, can be brought into the formal system. A higher tax base means every one of them is in compliance, and more comprehensive revenue.

Challenges of the New Tax Regime

- **Lack of Awareness:** A major issue is the lack of awareness among taxpayers about the details of the new tax regime. Many individuals are unaware of the trade-offs between the new and old regimes, which may lead to confusion and incorrect tax filing decisions.
- **Reduced Flexibility:** The new tax regime has reduced the flexibility that taxpayers enjoyed under the old regime, especially in terms of claiming deductions and exemptions. For those who have always relied on deductions (for example, for investments, insurance, and home loans), the new system limits their ability to plan their finances and optimize their tax savings.
- **Administrative Changes:** Implementation of the new tax regime entails considerable administrative adjustments. The authorities must make smooth transition from the old regime; they should effectively communicate new rules to the taxpayer and also be helpful while submitting the tax filing. This would add additional burdens on the administration of tax and further resource could be required for effective management.

Policy Recommendations

- **Awareness Campaigns:** To address the lack of awareness, the government should conduct targeted campaigns to educate taxpayers about the features, benefits, and limitations of both the old and new tax regimes. These campaigns should focus on clarifying the differences, helping individuals make informed decisions about which regime suits their financial situation best.
- **Dynamic Policies:** The government should consider allowing taxpayers more flexibility to switch between the old and new tax regimes on an annual basis. This would give individuals the freedom to choose the regime that best aligns with their changing financial circumstances, such as changes in income, investments, or family needs.
- **Incentivizing Compliance:** The government may provide extra incentives to the informal sector to transition into the formal tax system, for those choosing the new tax regime. For instance, rebates or reduced compliance costs would attract people to file their taxes and be part of the formal economy.
- **Periodic Review:** The government should establish a system of periodic reviews to assess the impact of the new tax regime on revenue generation, taxpayer compliance, and overall satisfaction. Regular evaluations would provide valuable insights into the effectiveness of the regime and help policymakers make timely adjustments to improve its implementation and outcomes.

Conclusion

The new tax regime is an important step in the simplification and streamlining of India's tax system, making it more transparent and easier to comply with. Although the regime offers benefits like lower tax rates and simpler compliance, the success of this regime depends on the challenges like limited flexibility for taxpayers and a general lack of awareness about the system's nuances.

To make the new tax regime fully successful, policymakers should address these challenges through awareness campaigns, dynamic policies that allow greater flexibility, and incentives to encourage compliance. Monitoring and periodic reviews are also crucial for long-term effectiveness of the regime.

In conclusion, by incorporating the correct changes and with appropriate implementation policies, the new tax regime could significantly contribute towards strengthening India's fiscal health and growth, contributing to a better, more efficient, and more equitable tax system.

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