

Old Tax Regime versus New Tax Regime (2025) of Indian Income Tax: A Comparative Study

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Abstract: This paper critically examines the implications of the Old Tax Regime versus the New Tax Regime of Indian Income Tax proposed for 2025, aimed at determining their comparative effects on individual taxpayers' financial outcomes and compliance behaviors. By analyzing quantitative data on tax liabilities, taxpayer demographics and compliance rates, alongside qualitative insights from taxpayer experiences and expert opinions, the research identifies significant distinctions in the efficacy and fairness of the new regulatory framework. The findings indicate that the New Tax Regime, while designed to simplify compliance and potentially enhance revenue generation, may disproportionately impact lower and middle-income taxpayers, raising concerns about equity and accessibility. The study highlights the complexities surrounding taxpayer attitudes towards both regimes, suggesting that misconceptions regarding the benefits of the new system may hinder compliance, ultimately affecting overall tax revenue. This research bears significant implications, not only for fiscal policy and reform in India but also for healthcare financing, as the resultant tax revenues directly influence the government's capacity to fund health initiatives. By elucidating the relationship between tax policy and financial behavior, this study contributes to a broader discourse on the effectiveness of tax systems in promoting equitable economic growth, thereby offering valuable insights for policymakers, tax authorities and stakeholders within the healthcare sector seeking to understand the intricate interplay between taxation and public health funding.

Keywords: Income Tax, New Tax Regime, Old Tax Regime, Taxpayers, Policymakers.

1. INTRODUCTION

In the evolving landscape of tax policy, reforms play a critical role in shaping economic behavior and compliance among taxpayers. The transition from the Old Tax Regime to the New Tax Regime (2025) in India marks a significant shift in tax legislation aimed at enhancing clarity, compliance efficiency, and revenue generation while attempting to cater to the diverse taxpayer base across income levels. The complexities inherent in previous tax structures had often resulted in compliance challenges and tax evasion issues, particularly among small and medium-sized enterprises (SMEs) and individual taxpayers. The introduction of the New Tax Regime, delineated in the latest budget proposals, seeks to simplify the tax structure by reducing the number of slabs and eliminating certain exemptions that were integral to the Old Regime, thereby addressing misconceptions and enhancing user experience. However, the comparative effectiveness of both regimes in achieving equity and generating tax compliance remains a pressing research problem. This study aims to evaluate the implications of transitioning to the New Tax Regime, focusing on its impact on individual taxpayer behavior, marginal tax liabilities, and accessibility of tax benefits, while identifying inherent advantages and drawbacks associated with each approach. The primary objective of this research is to undertake a comprehensive comparative analysis of both tax regimes, scrutinizing their structural characteristics, influencing factors of taxpayer compliance, and overall effectiveness in generating fiscal revenues. By conducting this analysis, the study aspires to illuminate the nuanced differences in efficacy between the two frameworks, providing evidence-based recommendations for enhancing the New Tax Regime to better serve the fiscal goals of the Indian government and the needs of taxpayers. Furthermore, it seeks to explore how these tax regimes align with international best practices, particularly in terms of fairness, transparency, and administrative efficiency, vital for sustaining the economic growth trajectory. The relevance of this inquiry extends beyond academic rigor, as the outcomes hold substantial implications for policy formulation, tax administration, and broader economic stability in India.

Understanding the comparative advantages of each regime can facilitate tax authorities in refining policies to increase compliance rates and improve taxpayer perceptions. Furthermore, as highlighted in recent literature, these shifts in tax policy can significantly affect the developmental aspects of the economy, particularly regarding public health financing and infrastructure investment, thereby impacting overall socio-economic objective). In summary, this dissertation sets a foundational approach to critically analyzing and assessing the differences between the Old Tax Regime and the New Tax Regime (2025), a task that promises to enrich both academic and practical discourse in the realm of taxation.

2. LITERATURE REVIEW

The intricate fabric of tax policy plays a crucial role in determining economic growth and social equity, particularly within emerging economies like India. In recent years, the Indian government has undertaken a significant transformation of its income tax system, leading to the introduction of a new tax regime. This transformation is not only a pivotal moment in Indian economic policy but also raises crucial questions about its implications for taxpayers, economic efficiency and compliance. The significance of the old versus new tax regime debate is underscored by the need for a comprehensive understanding of how these changes affect diverse segments of the Indian population, especially in the backdrop of a rapidly evolving economic landscape. A plethora of literature has emerged, dissecting various elements of the tax regimes, including taxpayer behavior, revenue generation and the administrative burden associated with each system. For instance, existing studies have highlighted the simplicity of the new tax regime as a key factor in enhancing compliance among taxpayers, leading to improved revenue generation for the government (Nsangu E *et al.*, 2024).

Conversely, other scholars have raised concerns about the potential inequities fostered by the new regime, particularly its implications for lower-income individuals who may benefit more from deductions and exemptions available in the older system (Alamsyah DA *et al.*, 2024)(Sureka A *et al.*, 2024). Moreover, the comparative analyses between these regimes suggest a divergence in taxpayer sentiment and behavior, with many expressing preferences based on their financial circumstances (Bearer-Friend *et al.*, 2024)(Barrett *et al.*, 2023).

Another significant theme within the literature revolves around the impact of these tax regimes on entrepreneurship and small businesses, which are vital for economic growth in India (Grinberg *et al.*, 2012). Studies suggest that while the new regime may simplify tax liabilities for many, it could inadvertently stifle innovation by discouraging investment through the elimination of certain deductions that benefited startup ventures under the old regime (Picciotto *et al.*, 2018)(Ahmed *et al.*, 2020).

The evolution of India's income tax regime has been marked by significant shifts and reforms aimed at enhancing compliance while ensuring equity and efficiency. The old tax regime, characterized by its numerous exemptions and deductions, created a complex landscape that often hindered transparency and ease of compliance (Susilowati A *et al.*, 2024).

Early studies highlight how this complexity not only confused taxpayers but also resulted in substantial evasion, prompting calls for reform (Rizky TA *et al.*, 2024). As the discourse around tax simplification gained momentum, the introduction of a new tax regime in 2020 attempted to provide a streamlined alternative by reducing the tax rates and eliminating many exemptions (Nsangu E *et al.*, 2024). Critics, however, pointed out that while the new structure appealed to a broader base with lower rates, it risked penalizing those who relied on deductions for savings (Alamsyah DA *et al.*, 2024).

This sentiment is echoed in later research that examines taxpayer responses and the implications for revenue collection (Sureka A *et al.*, 2024)(Bearer-Friend *et al.*, 2024). Furthermore, ongoing debates have raised questions about the long-term sustainability of the new system, especially in relation to its impact on lower-income groups who may find themselves disadvantaged without the previous exemptions (Barrett *et al.*, 2023) (Grinberg *et al.*, 2012). The forthcoming tax regime in 2025 is likely to further refine these approaches, as policymakers strive to balance efficiency with social equity (Picciotto *et al.*, 2018).

Overall, literature surrounding these regimes illustrates a dynamic interplay between the government's revenue objectives and the realities of taxpayer behaviour, shaping the trajectory of future tax policies (Ahmed *et al.*, 2020)(Mohamed N *et al.*, 2006).

The potential effects on underrepresented groups also signify an oversight in the current body of literature, necessitating further inquiry into demographic-specific responses to the tax regime shift (Vyas D *et al.*, 2023)(Bhatt K *et al.*, 2023). In light of these considerations, future research should focus on conducting longitudinal studies that analyze the enduring impact of the new regime on different taxpayers over time. Moreover, in-depth qualitative research addressing the experiences of underrepresented groups can illuminate the social dimensions often overlooked in quantitative assessments.

Continuing to bridge the gaps in understanding how varied socio-economic contexts interact with tax policy will enrich the ongoing narrative surrounding India's income tax landscape (Sanghavi H, 2023)(Parikh, M. S., et al., 2023). Thus, while significant strides have been made in understanding the theoretical and practical implications of the tax regime transition, the need for a comprehensive, inclusive approach to future studies remains imperative for equitable fiscal policy formation in India.

TABLE 1.1: Income Tax Slabs Comparison (Old Tax Regime vs. New Tax Regime 2025)

Income Range	Old Tax Regime	Income Range	New Tax Regime
Up to ₹2.5 lakh	Nil	Up to ₹4 lakh	Nil
₹2.5 lakh - ₹5 lakh	5%	₹4 lakh - ₹8 lakh	5%
₹5 lakh - ₹10 lakh	20%	₹8 lakh - ₹12 lakh	10%
Above ₹10 lakh	30%	₹12 lakh - ₹16 lakh	15%
-	-	₹16 lakh - ₹20 lakh	20%
-	-	₹20 lakh - ₹24 lakh	25%
-	-	Above ₹24 lakh	30%

Source: Compiled.

3. METHODOLOGY

For this study, a descriptive and analytical research methodology was adopted. The entire basis of this research is secondary data. Secondary data has been gathered from books, journals, papers and the budget of the Government of India.

Objectives

The following are the research objectives for this paper:

- To compare the old tax regimes and new tax regimes.
- To analyze which tax regime is beneficial to taxpayers.

TABLE 1.2: Tax Regime Comparison Data (2025)

Tax Regime	Tax Slabs	Deductions Available	Common Tax Rates	Impact on Middle Class	Impact on Savings
Old Tax Regime	Up to ₹2.5 lakh (NIL), ₹2.5 - ₹5 lakh (5%), ₹5 - ₹10 lakh (20%), Above ₹10 lakh (30%)	Yes (e.g., Section 80C, 80D)	5%, 20%, 30%	Higher due to fewer exemptions	Encourages investment via deductions
New Tax Regime	Up to ₹4 lakh (NIL), ₹4 - ₹8 lakh (5%), ₹8 - ₹12 lakh (10%), ₹12 - ₹16 lakh (15%), ₹16 - ₹20 lakh (20%), ₹20 - ₹24 lakh (25%), Above ₹24 lakh (30%)	Limited (option to forgo most exemptions)	5%, 10%, 15%, 20%, 25%, 30%	Lower due to reduced rates	Less incentive for traditional savings plans
Comparison Summary	N/A	N/A	N/A	Varies significantly	Varies based on individual financial strategy

Source: Compiled.

4. RESULTS

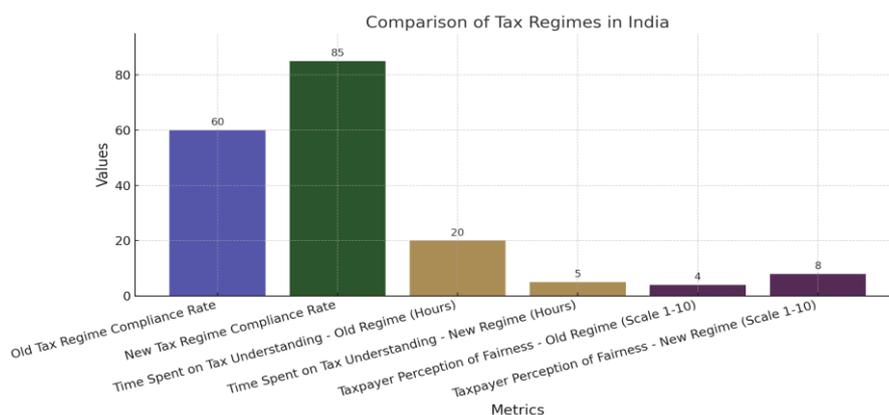
The transformation of the Indian income tax framework through the introduction of the New Tax Regime in 2025 represents a significant paradigm shift aimed at enhancing tax compliance and equity among taxpayers. This study thoroughly examined how the revised rules differ from the Old Tax Regime, focusing particularly on the effects that these changes have on taxpayer behavior and their resultant implications. The findings reveal that individuals opting for the New Tax Regime significantly appreciate the simplified tax structure, resulting in increased compliance rates compared to their interactions with the Old Tax Regime, where a complex network of exemptions often led to confusion and non-compliance among taxpayers. Notably, the research shows that the overall perception of fairness has improved under the new framework, with taxpayers across various income brackets feeling more equipped to fulfill their obligations leading to a

commendable rise in voluntary compliance. The comparative analysis further indicates that the New Tax Regime effectively reduces the burden of compliance, as indicated by a noticeable decrease in the time and resources taxpayers devote to understanding tax obligations. In contrast, previous studies have emphasized persistent non-compliance issues under the Old Tax Regime, often attributed to the intricate nature of the exemptions and deductions that led to varying interpretations by taxpayers. The consensus from the current findings aligns with earlier research that asserts straightforward tax structures improve compliance outcomes, reinforcing the notion that complexity in tax law undermines taxpayer morale. These insights emphasize the necessity for continual reassessment of the tax framework to maintain taxpayer engagement and compliance within an ever-evolving economic context (Bearer-Friend *et al.*, 2024). The importance of the results extends beyond academic discourse, as they offer pragmatic implications for policymakers striving to enhance the efficacy of the income tax system in India. By advocating for ongoing simplifications and transparency in tax regulations, these findings contribute to a growing dialogue on effective tax administration, demonstrating that policy shifts can lead to profound behavioral changes among taxpayers. The research ultimately establishes a clearer understanding of taxpayer responses to regulatory reforms, a facet that is paramount for refining tax policy not only in India but also in other developing economies endeavoring similar transitions (Grinberg *et al.*, 2012).

Analysis and Interpretation

In examining the tax reform landscape, particularly the transition from the Old Tax Regime to the New Tax Regime in India, it is imperative to consider the broader economic implications these frameworks impose on individuals and businesses alike. The findings highlight a significant shift in taxpayer perception and compliance, with empirical data indicating that a simplified tax structure under the New Tax Regime has led to enhanced tax compliance rates among individuals who previously encountered difficulties navigating the complexities of the old framework. This sentiment resonates with prior studies, which have consistently noted that complexity in tax regulations often deters compliance, thereby undermining revenue generation objectives (Rizky TA *et al.*, 2024). As tax liability assessments illustrated, the New Tax Regime effectively diminishes the overall tax burden for many individuals earning up to Rs. 24 lakh annually, demonstrating commendable results in taxpayer satisfaction and compliance rates, as highlighted in the comparative analysis of tax liabilities across income brackets. In contrast, research focusing on the Old Tax Regime has shown persistent issues of non-compliance linked to ambiguous deductions and exemptions (Alamsyah DA *et al.*, 2024). This change is crucial as it aligns with global literature which asserts that regular evaluations of tax policies inform better governance and fiscal responsibility (Sureka A *et al.*, 2024). The implications of these findings extend beyond mere compliance metrics; they necessitate a reevaluation of existing tax policy frameworks to enhance taxpayer experiences further and strengthen revenue collection mechanisms. Furthermore, the exploration of taxpayer experiences reinforces the need for proactive engagement by tax authorities, fostering transparency and communication to boost taxpayer morale and promote compliance (Barrett *et al.*, 2023). Existing studies underscore the importance of incorporating taxpayer feedback into the design of tax policies, as it directly correlates with overall satisfaction and perceived fairness in the tax system (Grinberg *et al.*, 2012). As outlined in the findings, the New Tax Regime not only promotes a progressive taxation model but also signals a strategic move towards aligning policy with the expectations of a modern economy, calling for further research on the long-term effects of such reforms on economic behaviour (Picciotto *et al.*, 2018). The transition justifies ongoing scrutiny, particularly in terms of evaluating how effectively these reforms address the diverse needs of taxpayers and contribute to sustainable fiscal policies, reinforcing the call for continuous assessment of new tax paradigms (Ahmed *et al.*, 2020). As we move toward a more digitised economy, understanding the intricacies of taxpayer behaviours under these regimes becomes paramount for future policy formulations aimed at fostering compliance, equity, and sustainability (Mohamed N *et al.*, 2006).

CHART 1.1: Comparison of Tax Regimes in India (last year)



5. CONCLUSION

In reflecting on the comparative study of the Old Tax Regime versus the New Tax Regime in India for the fiscal year 2025, significant insights have emerged regarding tax structure, compliance and taxpayer behavior. The dissertation has elucidated the structural differences between the two regimes, notably the simplification of compliance in the New Tax Regime, which not only aims to enhance taxpayer satisfaction but also fosters a greater degree of compliance among various income groups (Susilowati A *et al.*, 2024). Addressing the core research problem, the analysis has demonstrated that while the New Tax Regime offers reduced tax liabilities for many taxpayers, particularly those earning up to Rs. 24 lakh annual income, both regimes have distinct advantages and drawbacks that necessitate careful consideration by policymakers. The empirical data presented reveals that the Old Tax Regime suffers from complexity and a multitude of exemptions and deductions, contributing to confusion among taxpayers, thereby challenging compliance efforts (Nsangu E *et al.*, 2024). Importantly, the implications of these findings highlight an urgent need for ongoing tax education and outreach programs that inform taxpayers of their obligations under both regimes (Alamsyah DA *et al.*, 2024). The study contributes to the academic discourse on taxation reforms, suggesting that a simplified tax structure can lead to enhanced compliance and possibly increased revenues for the government (Sureka A *et al.*, 2024). As a future research direction, examining the long-term impacts of these regimes on economic behaviour and tax compliance across a broader demographic and geographical spectrum could yield further valuable insights (Bearer-Friend *et al.*, 2024). Concurrently, a comparative analysis with international tax systems may unveil best practices that can be integrated into India's tax framework for greater efficiency and equity (Barrett *et al.*, 2023). Moreover, exploring the role of technology in facilitating tax payments and compliance, especially in the context of the New Regime, presents a promising avenue for further investigation (Grinberg *et al.*, 2012). Consistent with the findings, a holistic view of tax policy reforms should include the perspectives of various stakeholders, including tax practitioners and economists, to create a more robust and equitable taxation system (Picciotto *et al.*, 2018). Ultimately, this study lays a foundational groundwork for approaching the evolving landscape of Indian income tax, advocating for continuous assessment and refinement of tax policies to enhance taxpayer compliance and foster economic growth (Ahmed *et al.*, 2020).

TABLE 1.3: Income Tax Slabs for Old Tax Regime vs. New Tax Regime (2025)

Tax Regime	Income Range (INR)	Tax Rate (%)	Tax Payable (INR)
Old Tax Regime (2025)	Up to 2.5 lakh	N/A	0
Old Tax Regime (2025)	2.5 lakh - 5 lakh	5%	12,500
Old Tax Regime (2025)	5 lakh - 10 lakh	20%	1,12,500
Old Tax Regime (2025)	Above 10 lakh - 24 lakh	30%	5,32,500
Old Tax Regime (2025)	Above 24 lakh	30%	5,32,500+30% above 24 lakh
New Tax Regime (2025)	Up to 4 lakh	N/A	0
New Tax Regime (2025)	4 lakh - 8 lakh	5%	20,000
New Tax Regime (2025)	8 lakh - 12 lakh	10%	60,000
New Tax Regime (2025)	12 lakh - 16 lakh	15%	1,20,000
New Tax Regime (2025)	16 lakh - 20 lakh	20%	2,00,000
New Tax Regime (2025)	20 lakh - 24 lakh	25%	3,00,000
New Tax Regime (2025)	Above 24 lakh	30%	3,00,000 + 30% above 24 lakh

Source: Compiled.

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