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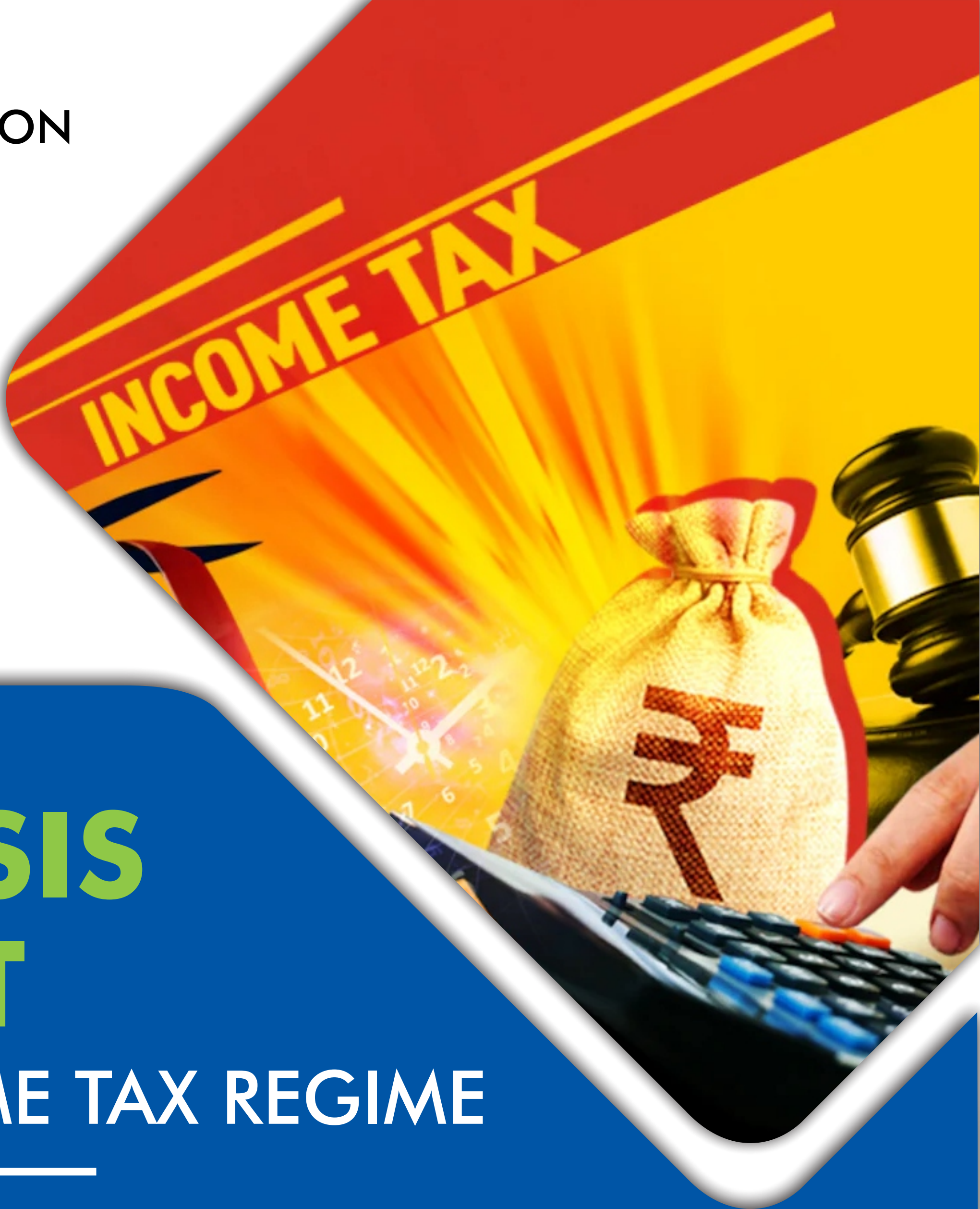


Group

ANALYSIS REPORT

NEW INCOME TAX REGIME

- Overview
- Rational Behind New Income Tax Regime
- Comparative Analysis Old Vs the New Income Tax Regime
- Identifying the Suitable Income Tax Regime (Old/New)
- Benefits Under New Tax Regime to Various Categories
- Union Budget 2024-25 Update on New Income Tax Regime
- Conclusion
- Eminent Insight

01

Overview

India's Income Tax System is structured to collect taxes from individuals, businesses, and other entities based on their income. The system is governed by the Income Tax Act of 1961, and it is administered by the Central Board of Direct Taxes (CBDT), which operates under the Department of Revenue in the Ministry of Finance. The key elements of India's Income Tax System are taxpayers and tax rates. The Indian Income Tax system classifies taxpayers into different categories, each subject to different tax rates.

CLASSIFICATION OF TAX PAYERS

- Individuals (Residents/ Non-residents/Senior Citizens)
- Hindu Undivided Families (HUFs)
- Firms and Companies
- LLPs (Limited Liability Partnerships)
- Trusts
- Others (Like Associations of Persons or Bodies of Individuals)

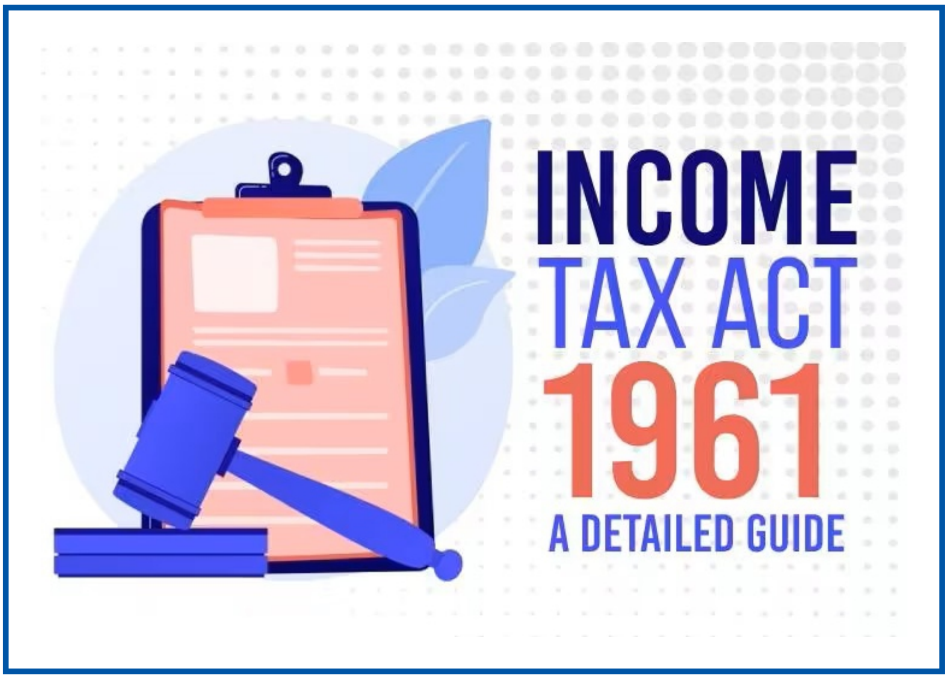
For individuals, the income tax is progressive i.e. the rate increases as the income increases. The income from different sources such as salary, wages, pensions, annuities, gratuities, rental income from property, interest, dividends, etc has been taken into consideration while calculating the effective tax on any individual.

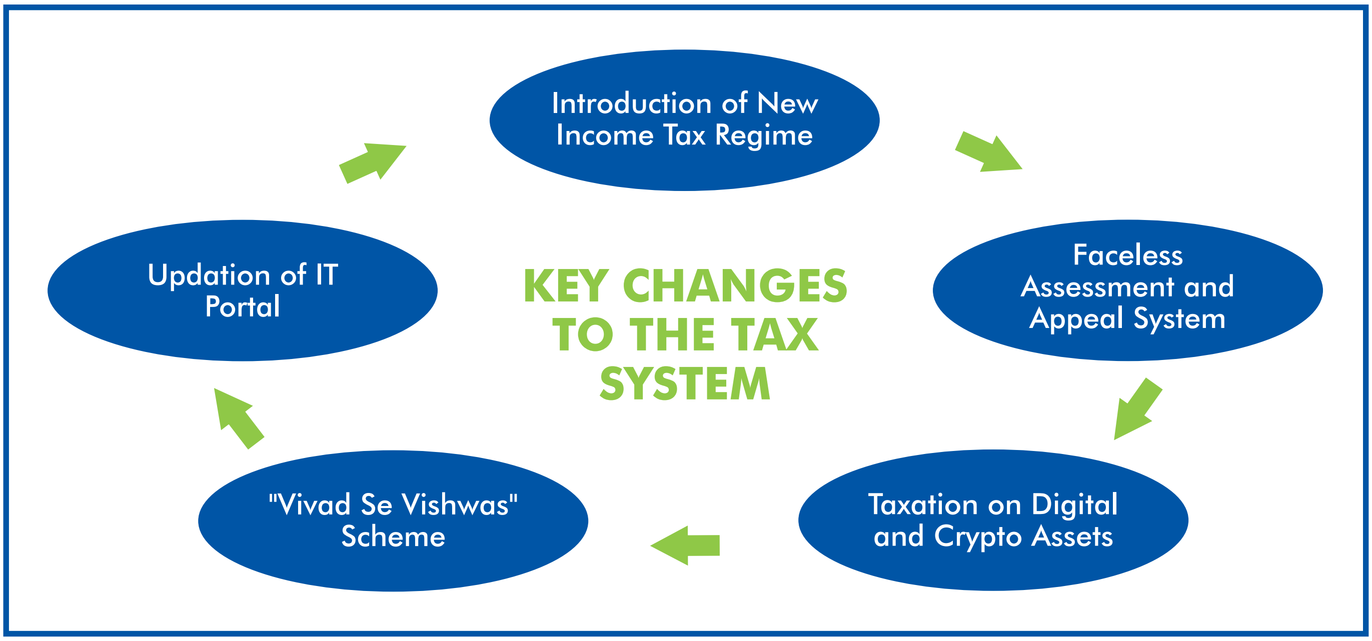
CLASSIFICATION OF INCOME FOR IT PURPOSES

- Income from Salary
- Income from House Property
- Profits and Gains from Business or Profession
- Capital Gains
- Income from Other Sources (Interest, Dividends, Gifts Exchange, Winning from Lotteries, etc)

Income tax returns need to be filed annually, usually by July 31st for individuals. Non-compliance with tax laws, such as not filing returns, under reporting income, or evading taxes, can lead to penalties, interest, or even prosecution under the Income Tax Act.

The last few years have witnessed the introduction of several key changes by the government to simplify the income tax system and widen the tax base in India. The digitization in the tax process is aimed reduce human interface and corruption. Apart from this, a new online tax filing portal was introduced for easier tax filing and tracking of tax returns.





While the new tax regime offers lower tax rates, it takes away most deductions and exemptions available in the old tax regime. Thus, Indian taxpayers need to carefully consider their financial where abouts, including their investment strategies and potential deductions, to decide which tax regime is more beneficial for them.

02

Rational Behind New Income Tax Regime

India's Income Tax System has been evolving significantly over the past few years to align it with the changing economic environment, digital advancements, and the government's aim to simplify the tax structure. In this line, The Indian Government introduced a new simplified tax regime in the Union Budget 2020-21, which provided tax payers with an option to choose between the old regime with multiple deductions and exemptions, or a new regime with reduced tax rates but without most exemptions and deductions.

The new tax regime targets young taxpayers and middle-income earners who might not have significant deductions or investments in tax-saving instruments. These taxpayers may benefit more from lower tax rates without needing to invest in tax-saving schemes.

RECENT TRENDS IN INDIA'S INCOME TAX SYSTEM

- Introduction of New Tax Regime
- Encouraging Consumption and Economic Activities
- Simplification of Tax Structure
- Incentivizing Voluntary Savings Choices
- Broadening the Tax Base
- Attraction for Young and Middle-Income Earners
- Rationalization of Tax Rates and Policies
- Transition Towards Modern Tax System
- Increase in Tax Compliance
- Freedom of Choice to Taxpayers
- Reduce the Scope of Tax Evasion
- Administrative Efficiency
- Focus on Long Term Term Stability

The introduction of the New Tax Regime in 2020 was aimed at simplifying tax compliance and reducing the need for taxpayers to invest in tax-saving instruments merely to reduce their tax liabilities. It is an alternative to the existing (old) tax regime to simplify the tax structure, provide taxpayers with more flexibility, and encourage higher compliance.

Source: https://www.freepik.com/free-photo/business-background-design_1065844.htm

The old tax regime was considered complex due to the various deductions and exemptions available. These deductions often required detailed documentation and careful tax planning, which could be cumbersome for many taxpayers. The new regime, with its lower tax rates and no deductions or exemptions, aims to simplify the process, making it easier for individuals to calculate their tax liabilities.

A simpler tax structure encourages more people to comply with tax laws and file their returns accurately. By removing the need for complex calculations related to various deductions and exemptions, the government hopes to reduce the chances of errors and increase voluntary compliance among taxpayers.

Source: https://www.indifi.com/blog/new-tax-or-old-tax-regime-which-one-should-you-pick/

The new regime seeks to reduce the avenues of tax evasion practices and ensure a fairer and more transparent tax system. **It is also designed to leave more disposable income in the hands of taxpayers with lower tax rates**. The government expects that with more disposable income, individuals will spend more, thereby boosting consumption and economic activities.

The introduction of the new regime is part of India's broader effort to modernize its tax system, making it more straight forward and in line with global best practices. More importantly, the government is providing the taxpayer an option to opt for either the old or the new regime. This dual system allows individuals to choose the best suitable regime that benefits them the most and caters to diverse financial choices and preferences.

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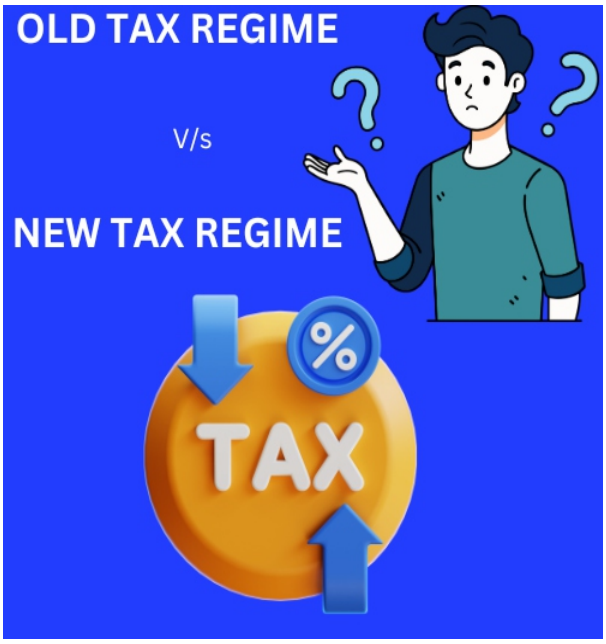
03

Comparative Analysis Old Vs the New Income Tax Regime

The Old Income Tax Regime and the New Income Tax Regime in India provide different approaches to personal income tax calculation, giving taxpayers the flexibility to choose the one that best suits their financial situation.

The New Tax regime has made as default applicable tax regime for individuals (except firms and companies) under the Union Budget 2023-24. The substantial tax-saving investments and eligible deductions under the old regime, provide more benefits despite the higher tax rates to individuals. The old regime, with its numerous exemptions and deductions, provides opportunities for taxpayers to manipulate their taxable income, sometimes leading to tax evasion.



COMPARATIVE VIEW OF NEW AND OLD TAX REGIME FOR FY 2023-24

S. No.	New Regime 115BAC (1A) introduced for FY 2023-24		Existing old Regime	
1.	0-3 lacs	0%	0-2.5 lacs	0%
2.	3-6 lacs	5%	2.5-5 lacs	5%
3.	6-9 lacs	10%	5-10 lacs	20%
4.	9-12 lacs	15%	Above 10 lacs	30%
5.	12-15 lacs	20%		
6.	Above 15 lacs	30%		

Source: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2016754

The old tax regime incentivized savings in specific instruments (like PPF, NSC, etc.) through tax deductions, often leading taxpayers to invest in tax-saving schemes rather than choosing investments based on their financial goals. The new regime allows taxpayers to decide on savings and investments without being influenced by tax considerations, promoting financial planning that aligns with individual goals rather than just tax-saving benefits.

01 Tax Exemption and Deductions Available in the Old Tax Regime

- Standards Deduction of Rs 50,000 from Salary Income
- Section 80C: Up to Rs 1.5 lakh for investments in PPF, NSC, ELSS, insurance premiums, etc.
- Section 80D: Deductions for health insurance premiums.
- Section 24(b): Interest on home loan up to Rs 2 lakh for self-occupied property.
- House Rent Allowance (HRA), Leave Travel Allowance (LTA), Standard Deduction of Rs 50,000 from salary income, and more.
- Exemptions for allowances like children's education, hostel allowance, conveyance allowance, etc.
- Employees Contribution to NPS

The Old Regime is more suitable for those who are willing to engage in long-term tax planning and investment whereas New Income Tax Regime Offers a simplified approach with reduced tax rates but at the cost of forgoing most deductions and exemptions. The Old Regime has higher administrative and compliance issues as it requires documentation and proof of deductions/exemptions, which can be tedious work for taxpayers.

The new tax regime follows a standard deduction of Rs 75,000 from salary income as per Union Budget 2024-25. Basis standard deduction in old and new tax regimes, the effective tax-free salary comes to Rs 5.5 Lakh and Rs 7.75 Lakh respectively. The rebate under Section 87A as if the total income is up to Rs 7 lakh, the entire tax calculated is rebated back to the taxpayer, resulting in a net tax liability of zero garnering major interest from new taxpayers. Other than the above differences, some of the deductions and exemptions are available in both tax regimes including the employer's contribution to the NPS scheme

02 Tax Exemption and Deductions Available in the Both Tax Regime

- Conveyance allowance for employment-related expenses.
- Deduction for employment or income expenses.
- The exemption on gratuity received by an employee subject to the existing limits under Section 10(10).
- The exemption for leave encashment received by an employee subject to prescribed limits under Section 10(10AA).
- Voluntary Retirement Scheme (VRS) Proceeds Exempted under 10(10C)
- Interest on Home-loan let-out property
- Contributions to Agniveer Corpus Fund under 80CCH

It is fulfilling that the government's objective for the introduction of the **New Regime** is serving the purpose and making a broader effort to simplify the tax structure. **It resulted in 58.57 lakh new tax filers in 2023-24 along with 72% of existing taxpayers shifting to the new tax regime**. It has also reduced the number of taxpayers in litigation due to complex calculations and exemptions and effectively converted to broadening the tax base with voluntary compliance.

04

Identifying the Suitable Income Tax Regime (Old/New)

To decide which Income Tax Regime (Old or New) is more beneficial to any individual, taxpayers need to consider several key parameters. These parameters will help you determine which regime aligns best with your tax liabilities, and overall financial goals.

WHO IS MORE LIKELY TO JOIN THE OLD INCOME TAX REGIME

- Beneficial for taxpayers who have significant investments in tax-saving instruments and prefer to claim various deductions and exemptions.
- Suitable for those who have home loans, pay substantial insurance premiums
- Beneficial for individuals who have higher expenses related to HRA, medical expenses, etc

WHO IS MORE LIKELY TO JOIN THE NEW TAX REGIME

- Beneficial for those who do not have major investments in tax-saving instruments and prefer a simpler and straight forward tax calculation process.
- Suitable for young professionals, individuals in lower income brackets, or those who do not want to invest solely for tax-saving purposes.
- Ideal for those who want more disposable income without the hassle of planning investments around tax saving.

Choosing between the two tax regimes by the Indian taxpayers involves assessment of these parameters based on their personal and financial circumstances. Taking the help of online tax calculators and professional financial advisors can also provide better assistance in this comparison. Taxpayers need to calculate their tax liability under both regimes, considering all possible deductions and exemptions, to make an informed decision.

05

Benefits Under New Tax Regime to Various Categories

The **New Income Tax Regime** provides several benefits tailored to different categories of taxpayers, such as individuals, senior citizens, small business owners, and others. **The benefit depends on the taxpayer's financial profile, income level, and personal preferences other than salaried individuals in FY 2023-24.**

Income Tax Slabs for Individuals below 60 years and HUF:

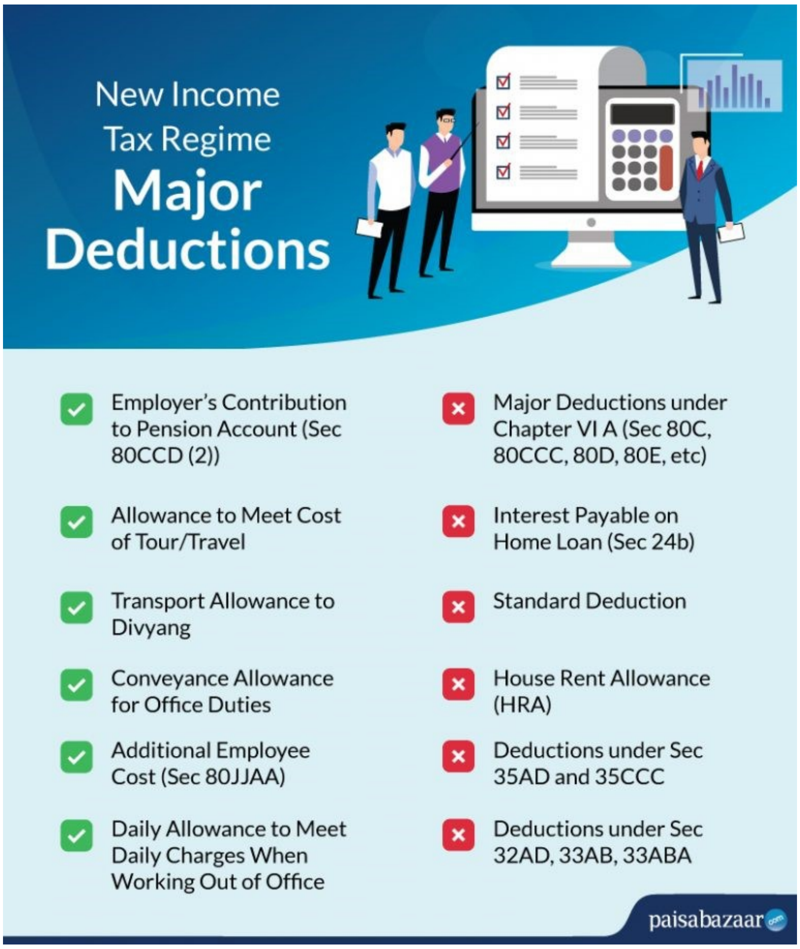
Income Tax Slab	Tax Rates
<Rs 2,50,000	NIL
Rs2,50,001 to Rs 5,00,000	5%
Rs 5,00,001 to Rs 10,00,000	20%
>Rs 10,00,000	30%

Income Tax Slabs for Individuals aged between 60 years and 80 years:

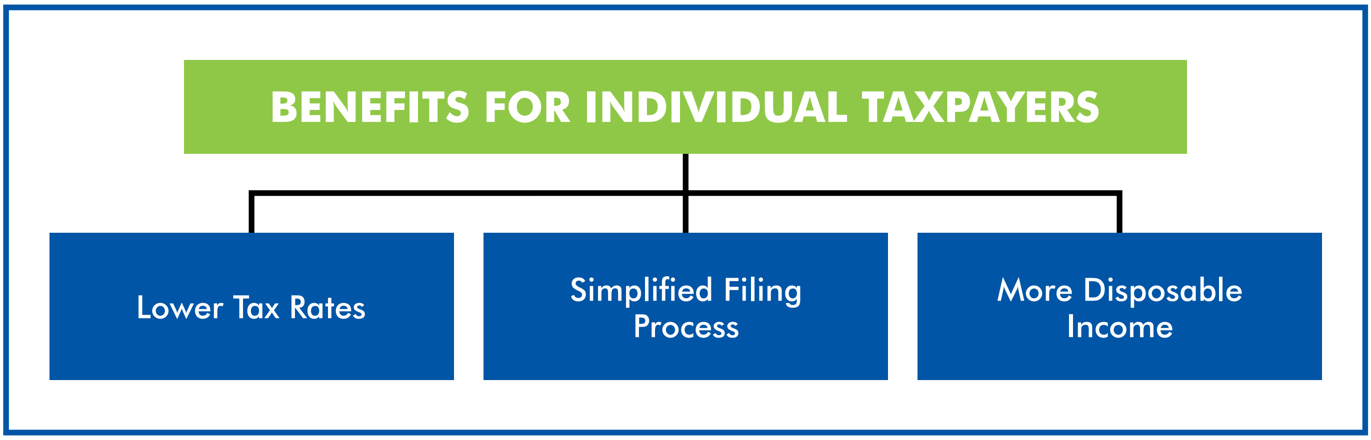
Income Tax Slab	Tax Rates
<Rs 3,00,000	NIL
Rs 3,00,001 to Rs 5,00,000	5%
Rs 5,00,001 to Rs 10,00,000	20%
>Rs 10,00,000	30%

Source: https://www.hdfclife.com/insurance-knowledge-centre/tax-saving-insurance/income-tax-slab-rates

The regime is particularly advantageous for those looking for a simpler, hassle-free tax filing process, lower tax rates, and more freedom in financial planning without the compulsion of adhering to specific tax-saving instruments. However, taxpayers need to evaluate both regimes to determine which option maximizes their tax savings and aligns with their individual financial goals.



The new regime offers reduced tax rates across various income slabs in comparison to the old tax regime. This is beneficial for individuals who prefer lower rates without the need for multiple exemptions and deductions which ultimately simplifies the tax filing process, reducing the burden on taxpayers to maintain detailed records and documentation. The individual taxpayer in **lower and middle-income brackets (up to Rs 15 lakh)** may also benefit from more disposable income due to the lower rates. This enables them to use their savings and investments according to personal financial goals rather than just tax-saving objectives.



With fewer exemptions and deductions to claim, small business owners and professionals can predict their tax liabilities more accurately, aiding in better financial planning and administrative management.

BENEFITS FOR SMALL BUSINESS OWNERS AND PROFESSIONALS

- Predictability
- Scope of Financial Planning
- Reduced Administrative Hassels

A simplified regime without deductions and exemptions reduces the administrative load on the government to process and verify numerous claims, leading to more efficient tax administration apart from providing flexibility in investment choices.

LIST OF OTHER GENERAL BENEFITS

- Stable Upper Tax Rate
- Increased Basic Exemption Limit
- Reduce Government Administrative Cost
- Favors Young Earners with No Major Financial Commitments
- Choice Based on Income Structure Benefitting High-Income Earners
- No Compulsion on Salaried Employees for Investing in tax-Saving Instruments

The simplicity of the new regime reduces the opportunities for tax evasion or under reporting of income, encouraging a culture of transparency and honesty among taxpayers. Therefore, to cater to maximum benefit, individuals are advised to consult tax professionals or use online tax calculators to compare the benefits under both regimes before opting for the one in a particular assessment year.

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06

Union Budget 2024-25 Update on New Income Tax Regime

In the Union Budget 2024-25, the Indian government announced several updates to the New Income Tax Regime to make it more attractive and beneficial for taxpayers. Other than revision in the tax slab for FY 2024-25, the government also proposed various simplification measures for the Indian Taxation system.

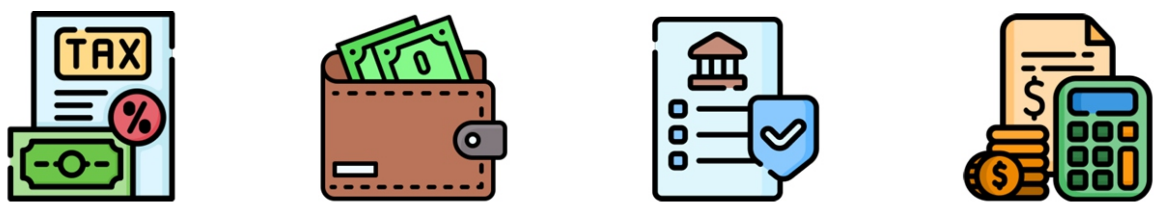
The proposal includes a comprehensive review of the Income Tax Act 1961 within six months. The government announced changes to make capital gains taxes more straightforward, with a short-term capital gains tax rate of 20% and a long-term capital gains (LTCG) tax rate of 12.5% on certain financial products.

TAX SLAB REVISION UNDER NEW TAX REGIME IN FY 2024-25

Income Slabs	Tax Rate
0-3 Lakh rupees	NIL
3-7 Lakh rupees	5%
7-10 Lakh rupees	10%
10-12 Lakh rupees	15%
12-15 Lakh rupees	20%
Above Lakh rupees	30%

Source: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2016754

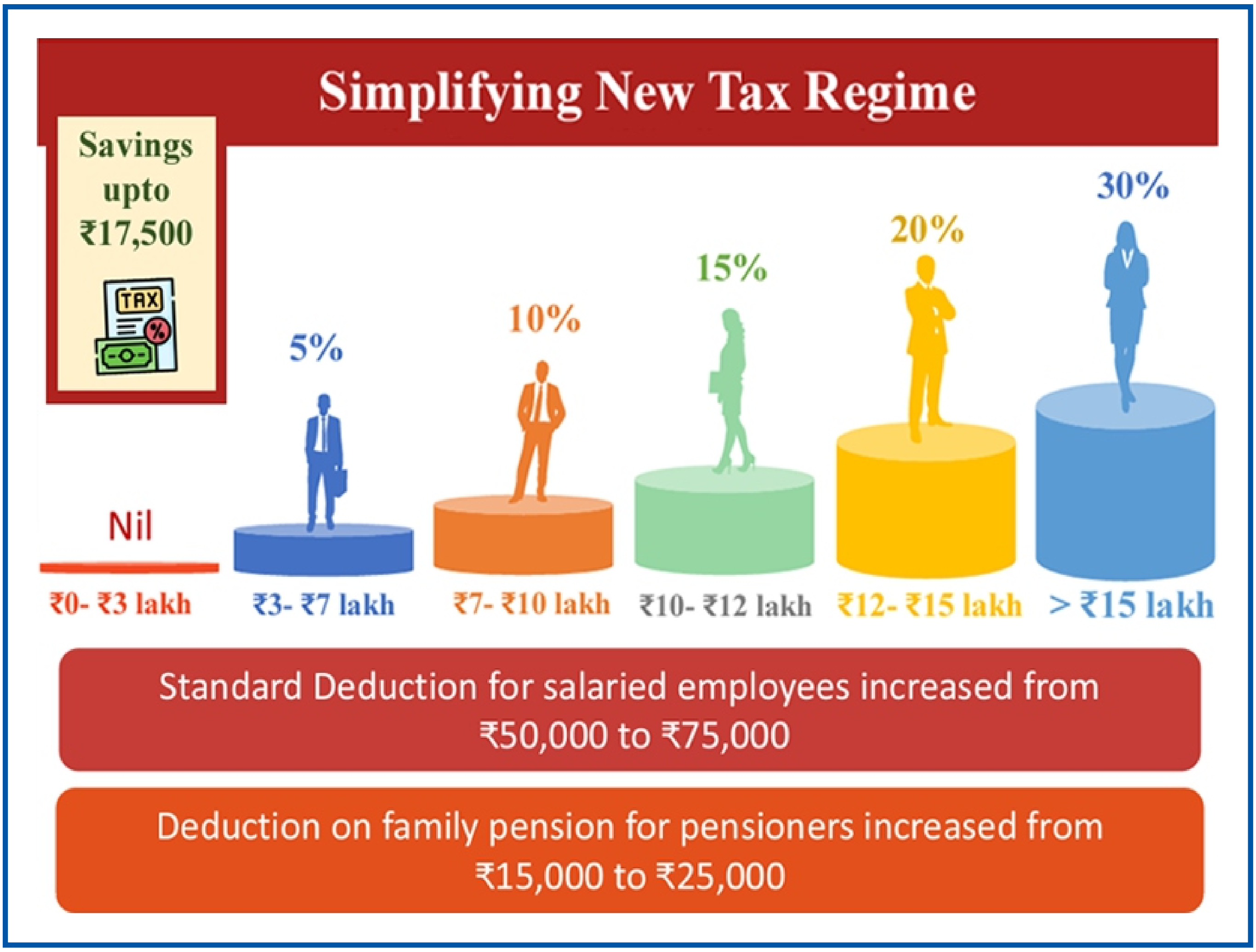
Simplification in Taxes



- Review of Income Tax Act 1961
- Simplification of charities and TDS
- Litigation and Appeal
- Deepening the tax base

TDS rates on payments by e-commerce operators have been reduced significantly from 1% to 0.1%, starting October 1, 2024. This is expected to benefit businesses operating on e-commerce platforms. The previous 20% TDS on mutual fund repurchases under Section 194F has been completely removed, simplifying investment returns for investors.

The budget has provided much-awaited tax relief to around four crore salaried employees and pensioners under the New tax regime with revised standard deduction limits and deductions on family pensions.



Source: https://www.indiabudget.gov.in/doc/bh1.pdf

These measures aim to make the new tax regime more favourable for taxpayers by offering increased deductions and simpler tax structures. The government also expects these changes to encourage more individuals to opt for the new regime, thereby broadening the tax base. These changes are part of the government's effort to streamline the tax process and make the new tax regime more appealing to taxpayers by offering simpler and potentially lower tax rates.

07

Conclusion

India's income tax system is undergoing a transformative phase, driven by technology, policy rationalization, and a focus on ease of compliance. The evolving landscape is aimed at making the system fairer, more transparent, and conducive to both economic growth and taxpayer satisfaction. The future is likely to see continued advancements in digital tools, further simplification of tax laws, and an ongoing emphasis on broadening the tax base.

The budget allocations and policies are subject to change each year based on the Union Budget presented by the Ministry of Finance. Over time, the government has been phasing out the attractiveness of the old tax regime. The new income tax regime represents an effort by the Indian government to modernize the tax system, increase compliance, reduce evasion, and make the tax-paying experience easier for citizens. Thus, India strives to move towards a simplified tax regime aligned with India's broader economic reforms to create a more transparent, efficient, and inclusive economy.

08

Eminent Insight

> Second tax regime is simple, no exemptions and headaches. 72% of all tax payers have moved to new tax systems. India's direct taxation is understanding requirement of people and allowing them to transition towards easier tax system. The approach is of nudge and not of forcing regimes.
>
> **Mrs. Nirmala Sitharaman**
> **Finance Minister**
> **Government of India**

RESOURCES

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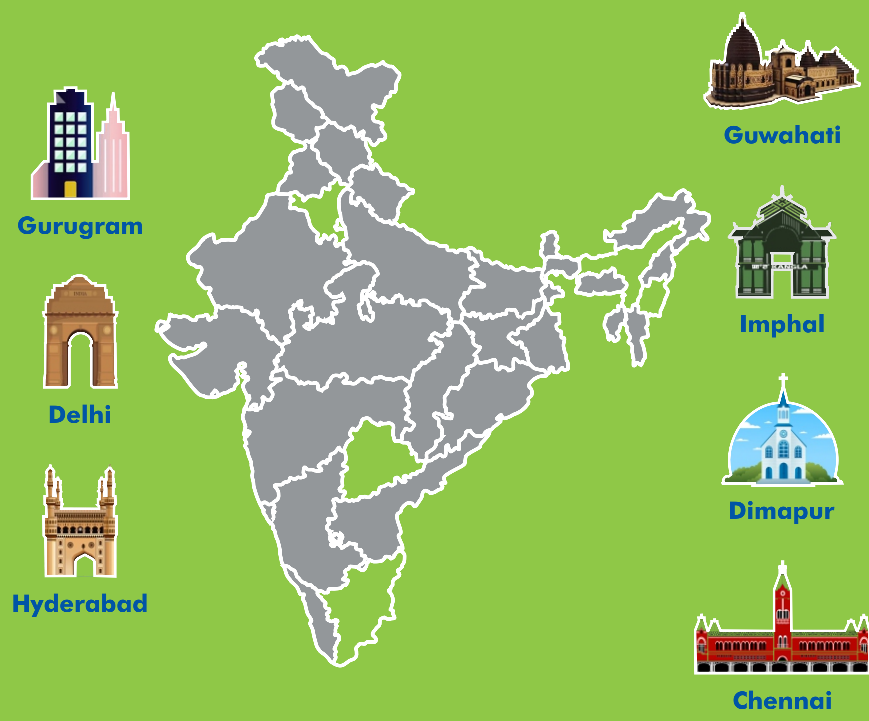

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