PERSONAL INCOME TAX REFORMS IN INDIA: A COMPARATIVE ANALYSIS OF THE OLD AND NEW TAX REGIMES

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ABSTRACT

India's personal income tax system has undergone significant structural reforms with the introduction New Tax Regime under Section 115BAC through the Union Budget 2020–21. This study examines the evolution of the personal income tax structure in India from the financial year 2019–20 to 2025–26 through a comparative analysis of the Old Tax Regime (OTR) and the New Tax Regime. The study is based on secondary data collected from Union Budget documents, statutory provisions of the Income-tax Act, 1961, the New Income Tax Act, 2025, and other official government publications. A descriptive and comparative research approach has been adopted to analyse changes in tax slabs, rebate provisions under Section 87A, standard deductions, surcharge structure, and the overall design of the two tax regimes. The analysis indicates a gradual policy shift from a deduction-oriented tax framework towards a simplified rate-based system aimed at improving transparency, reducing compliance costs, and enhancing taxpayer convenience. Successive budgetary reforms have progressively strengthened the New Tax Regime by expanding rebate thresholds, revising tax slabs, and increasing the standard deduction, thereby providing greater tax relief to middle-income taxpayers while retaining the Old Tax Regime as an alternative for individuals benefiting from exemptions and deductions. The findings contribute to the understanding of recent tax policy reforms and provide useful insights for policymakers, researchers, tax practitioners, and individual taxpayers.

Keywords: Personal Income Tax, New Tax Regime, Old Tax Regime, Income-tax Reforms, Section 115BAC, Section 87A, Tax Policy, Effective Tax Burden, Budget Reforms, India.

INTRODUCTION

Taxation constitutes the backbone of a nation's fiscal system and serves as one of the most significant instruments for mobilising public revenue, promoting economic development, and achieving social equity. Among the various forms of taxation, personal income tax occupies a pivotal position because it directly affects individual taxpayers while simultaneously providing governments with a stable source of revenue for financing public expenditure. A well-structured personal income tax system not only generates financial resources for developmental activities but also facilitates income redistribution through progressive taxation, thereby reducing economic inequalities and promoting inclusive growth. Consequently, the design of an efficient personal income tax system requires a careful balance between revenue mobilisation, administrative simplicity, taxpayer convenience, economic efficiency, and equity.

India's personal income tax system has undergone continuous reforms since the enactment of the Income-tax Act, 1961. Traditionally, the Indian tax system has followed a progressive slab-based structure complemented by a wide range of exemptions, deductions, rebates, and incentives intended to encourage savings, investment, housing, insurance, retirement planning, and other socially desirable economic activities. The Old Tax Regime enabled taxpayers to reduce their taxable income by claiming deductions under various provisions of the Income-tax Act. While these incentives promoted long-term financial planning and capital formation, they also increased the complexity of tax computation and compliance.

Recognising these challenges, the Government of India introduced the New Tax Regime under Section 115BAC through the Union Budget 2020–21. The new regime offered lower tax rates in exchange for foregoing most exemptions and deductions available under the traditional system. Rather than immediately replacing the old framework, both regimes were permitted to coexist, allowing taxpayers to choose the system best suited to their financial circumstances.

Successive Union Budgets further strengthened the New Tax Regime by revising tax slabs, increasing rebate limits under Section 87A, enhancing the standard deduction, and rationalising surcharge provisions. These reforms sought to simplify compliance, improve transparency, broaden the tax base, and reduce the effective tax burden on middle-income taxpayers while retaining the Old Tax Regime for individuals who benefit from deductions and exemptions.

The reforms have significant implications for taxpayers, policymakers, and the economy. They influence taxpayer behaviour, savings decisions, consumption patterns, compliance costs, and revenue mobilisation. At the same time, digital initiatives such as electronic filing, pre-filled returns, and faceless assessments complement structural reforms by making tax administration more efficient and transparent.

Despite the importance of these developments, relatively few studies have examined the complete evolution of India's personal income tax structure from FY 2019–20 to FY 2025–26. This study therefore analyses the evolution of the Old and New Tax Regimes, compares changes in tax slabs, rebate provisions, deductions, and surcharge structures, and discusses their implications for tax policy, administrative efficiency, taxpayer welfare, and fiscal sustainability. The study is based on secondary information drawn from official budget documents and statutory provisions and adopts a descriptive and comparative analytical approach.

REVIEW OF LITERATURE

S. No.	Author(s) & Year	Title / Study Focus	Methodology	Major Findings	Research Gap / Relevance
1	Musgrave (1959)	Theory of Public Finance	Conceptual	Taxation supports allocation, distribution and stabilisation.	Provides theoretical basis for tax reform analysis.
2	Stiglitz (1986)	Economics of the Public Sector	Theoretical	Emphasised equity, efficiency and simplicity in taxation.	Framework for evaluating tax regimes.
3	Tanzi & Zee (2000)	Tax Policy for Emerging Economies	Policy analysis	Favoured broader tax bases and fewer exemptions.	Supports simplified tax structures.
4	OECD Reports	Tax Policy Reforms	Comparative	Simplification improves compliance and administration.	International benchmark.
5	CBDT / Union Budgets	Income Tax Reforms	Policy documents	Document tax slab, rebate and surcharge changes.	Primary policy context.
6	NIPFP Studies	Direct Tax Reforms	Policy evaluation	Recommended rationalisation of direct taxes.	Supports structural reform discussion.
7	Recent	Old vs New Tax	Comparative	Choice depends on	Need for

	Indian Studies	Regime		deductions and income profile.	chronological analysis.
8	Recent Empirical Studies	Taxpayer Behaviour	Survey/Empirical	Simplified systems may improve compliance.	Behavioural implications.
9	Present Study	Evolution of India's Personal Income Tax Structure	Descriptive & Comparative	Analyses FY 2019–20 to FY 2025–26 reforms.	Addresses integrated chronological gap.

RESEARCH GAP

Existing studies largely analyse individual budgets or compare tax liabilities under the two regimes. Few studies provide a comprehensive chronological assessment of reforms from FY 2019–20 to FY 2025–26 covering tax slabs, rebates, deductions, surcharge provisions, and policy implications.

RESEARCH METHODOLOGY

- **Research Design**

The present study adopts a descriptive and comparative research design to examine the evolution of India's personal income tax structure under the Old Tax Regime (OTR) and the New Tax Regime (NTR). It analyses changes in tax slabs, rebate provisions, standard deductions, surcharge rates and other major features introduced through successive Union Budgets from FY 2019–20 to FY 2025–26.

- **Nature of the Study**

The study is analytical in nature and is based entirely on secondary data. It evaluates legislative amendments, budget announcements and official tax provisions to understand the evolution of India's personal income tax structure and its policy implications.

- **Sources of Data**

Secondary data have been collected from Union Budget documents (FY 2019–20 to FY 2025–26), the Income-tax Act, 1961, relevant amendments including Section 115BAC, official publications of the Ministry of Finance and CBDT, government reports, and published books and journal articles relevant to personal income taxation.

- **Period of the Study**

The study covers FY 2019–20 to FY 2025–26 because it encompasses the introduction of the New Tax Regime and the major reforms implemented through successive Union Budgets.

- **Method of Data Analysis**

The study employs descriptive and comparative analytical techniques. Changes in tax slabs, rebate provisions, deductions, surcharge rates and policy measures are examined chronologically. Comparative tables are used to evaluate differences between the Old and New Tax Regimes and to discuss their implications for taxpayers and tax policy.

- **Scope of the Study**

The study is confined to personal income tax applicable to individual taxpayers in India. It focuses on the evolution of the Old and New Tax Regimes and excludes corporate taxation, indirect taxes and international taxation.

- **Limitations of the Study**

The study is based solely on secondary data and does not include taxpayer surveys or other primary data. It analyses statutory provisions and policy changes rather than actual taxpayer behaviour or tax collection outcomes.

- **Significance of the Study**

The study provides a chronological assessment of recent personal income tax reforms in India and offers insights for policymakers, researchers, tax practitioners and individual taxpayers regarding tax simplification and fiscal policy.

DATA ANALYSIS AND INTERPRETATION

Table I

Evolution of India's Personal Income Tax Structure

FY	Major Reform	Objective	Expected Impact
2019–20	Old regime	Savings incentives	Higher compliance
2020–21	New regime introduced	Simplification	Lower rates
2021–22	Operational changes	Implementation	Awareness
2022–23	Dual regime	Choice	Flexibility
2023–24	New regime default	Simplification	Higher adoption
2024–25	Higher rebate & standard deduction	Relief	Higher disposable income
2025–26	Revised slabs	Further simplification	Taxpayer-friendly

Source: Government of India, Finance Acts for various years.

Table I presents evolution of India's personal income tax Structure from FY 2019–20 to FY 2025–26). It demonstrates that India's personal income tax system has undergone a gradual but significant transformation during the period under study. Prior to FY 2020–21, the Old Tax Regime (OTR) relied extensively on exemptions and deductions to promote household savings and investment. Although this approach supported long-term capital formation, it resulted in a relatively complex tax system requiring taxpayers to maintain substantial documentation and undertake extensive tax planning.

The introduction of the New Tax Regime marked a major policy shift. Instead of encouraging tax savings through numerous deductions, the Government adopted a strategy of reducing tax rates while eliminating most exemptions. This reform reflects a movement towards a simpler and more transparent taxation system aimed at reducing compliance costs and improving taxpayer convenience.

Subsequent budgetary reforms indicate that the Government consistently strengthened the New Tax Regime rather than treating it as an experimental alternative. The enhancement of rebate limits, expansion of the standard deduction, revision of tax slabs, and declaration of the New Tax Regime as the default option clearly illustrate the Government's long-term commitment to simplifying personal income taxation.

Table II

Comparative Analysis of Tax Regimes

Parameter	Old Tax Regime	New Tax Regime
Rates	Higher	Lower
Deductions	Available	Mostly unavailable

Complexity	High	Low
Compliance	Higher	Lower

Source: Analysed from Budget Documents of Government of India for various years.

Table II highlights the fundamental structural differences between the Old and New Tax Regimes. The Old Tax Regime provides numerous deductions and exemptions, thereby enabling taxpayers to reduce taxable income through investments in provident funds, insurance policies, pension schemes, housing loans, and other eligible instruments. Consequently, taxpayers with substantial tax-saving investments may continue to derive greater financial benefits under this regime despite relatively higher tax rates.

Conversely, the New Tax Regime significantly reduces tax rates but restricts most deductions and exemptions. The simplified structure substantially reduces documentation requirements and minimizes the complexity associated with tax planning. As a result, taxpayers can calculate their tax liability more easily and file returns with greater accuracy.

The comparative analysis further reveals that the choice between the two regimes depends largely upon individual financial behaviour rather than merely taxable income. Salaried taxpayers with limited investments generally benefit more from the New Tax Regime, whereas individuals making substantial tax-saving investments may continue to prefer the Old Tax Regime. Finance Acts for various years. Therefore, the coexistence of both regimes provides taxpayers with flexibility while facilitating a gradual transition towards a simplified taxation framework.

Table III

Taxpayer Relief Measures

Measure	Old Tax Regime	New Tax Regime	Impact
Section 87A	Lower rebate	Higher rebate	Reduced liability
Standard deduction	Restricted	Expanded	Lower taxable income
Tax-free income	Lower	Higher	Higher disposable income

Source: Analysed from Budget Documents of Government of India for various years.

Table III illustrates the progressive expansion of taxpayer relief measures throughout the study period. One of the most significant reforms has been the enhancement of the rebate available under Section 87A, which substantially increased the tax-free income threshold for lower and middle-income taxpayers. This reform effectively reduced or eliminated tax liability for many individuals while simultaneously increasing their disposable income.

Similarly, the extension of the standard deduction to taxpayers opting for the New Tax Regime represents a major policy change. Initially, the absence of this deduction reduced the attractiveness of the New Tax Regime for salaried employees. However, subsequent budgetary reforms addressed this limitation by extending standard deduction benefits, thereby improving equity between the two regimes.

The combined effect of higher rebates, increased standard deductions, and revised tax slabs demonstrates that recent reforms have been designed not merely to simplify tax administration but also to improve taxpayer welfare. These measures are expected to stimulate household consumption by increasing disposable income while maintaining the progressivity of the tax system.

Table IV

Effective Tax Burden

Income	Old Tax Regime	New Tax Regime	Generally Better
Low	Similar	Lower	New
Middle	Depends on deductions	Lower	New
High	Case specific	Case specific	Depends

Source: Analysed from Budget Documents of Government of India for various years.

Table IV compares the effective tax burden under the Old and New Tax Regimes across different income categories. The analysis indicates that taxpayers with limited deductions generally experience a lower effective tax burden under the New Tax Regime due to lower tax rates, expanded rebate provisions, and enhanced standard deductions.

For lower-income taxpayers, the increase in rebate thresholds substantially reduces tax liability and, in many cases, eliminates income tax altogether. This policy strengthens the redistributive role of the tax system while protecting economically weaker sections.

Middle-income taxpayers emerge as the principal beneficiaries of recent reforms. The revised tax slabs and enhanced standard deductions reduce their overall tax burden, thereby increasing disposable income and potentially encouraging higher consumption and savings.

However, the analysis also demonstrates that taxpayers with substantial investments in tax-saving instruments may continue to benefit from the Old Tax Regime because of the availability of multiple deductions and exemptions. Consequently, neither regime is universally superior; the optimal choice depends upon individual investment patterns and financial planning strategies.

The findings therefore indicate that the New Tax Regime successfully achieves its primary objective of simplifying taxation while remaining competitive in terms of tax liability. At the same time, the continued availability of the Old Tax Regime ensures that taxpayers who have structured their finances around deduction-based incentives are not adversely affected during the transition period.

CONCLUSION AND FINDINGS

The study reveals that India's personal income tax system has undergone a significant structural transformation during the period from FY 2019–20 to FY 2025–26. The introduction of the New Tax Regime (NTR) under Section 115BAC marked a shift from a deduction-based taxation framework towards a simplified rate-based system. Successive Union Budgets have consistently strengthened the NTR by revising tax slabs, enhancing rebate limits under Section 87A, extending the benefit of the standard deduction, and rationalising surcharge provisions.

The comparative analysis indicates that the NTR is generally more beneficial for taxpayers who do not claim substantial deductions, whereas the Old Tax Regime (OTR) continues to provide greater tax savings for individuals making significant investments under eligible deduction provisions. The study further finds that recent reforms have simplified tax computation, reduced compliance requirements, improved transparency, and lowered the effective tax burden for lower and middle-income taxpayers. Overall, the reforms demonstrate a clear policy direction towards creating a more efficient, taxpayer-friendly, and transparent personal income tax system while preserving the progressive nature of taxation.

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The findings support the arguments of Musgrave (1959) and Stiglitz (1986)**,** who maintained that an efficient tax system should balance equity, efficiency, and administrative simplicity. Similarly, Tanzi and Zee (2000) argued that emerging economies benefit from broader tax bases combined with fewer exemptions, a principle reflected in India's recent tax reforms.

The gradual strengthening of the New Tax Regime through successive budgetary reforms indicates a policy preference for a tax framework characterised by lower tax rates, simplified compliance procedures, and reduced dependence on exemptions and deductions. However, the continued availability of the Old Tax Regime ensures flexibility for taxpayers whose financial planning and investment patterns make deduction-based taxation more beneficial. The dual-regime system has enabled a smooth transition towards tax simplification without causing abrupt disruption to taxpayers. Overall, the reforms have contributed to improving taxpayer convenience, enhancing transparency, reducing compliance costs, and supporting efficient tax administration while maintaining equity and sustainable revenue mobilisation. Continued periodic review of tax slabs, rebate provisions, and taxpayer awareness initiatives will further strengthen the effectiveness of India's personal income tax system in meeting changing economic and fiscal requirements.

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