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IMPACT OF THE NEW INCOME TAX REGIME ON INDIVIDUAL TAXPAYERS: A COMPARATIVE STUDY OF TAX LIABILITY AND TAX-SAVING BEHAVIOUR

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Keywords	Abstract
New Tax Regime; Old Tax Regime; Section 115BAC; Tax Liability; Tax-Saving Behaviour.	The introduction of the concessional New Tax Regime under Section 115BAC of the Income Tax Act, 1961, and its designation as the default regime from Assessment Year 2024-25, represents one of the most significant structural changes to India's personal income tax system in recent years, offering individual taxpayers lower slab rates in exchange for foregoing most exemptions and deductions. This study empirically examines the impact of the New Tax Regime on individual taxpayers, comparing tax liability and tax-saving behaviour between the Old and New regimes. Using a structured questionnaire administered to 386 individual taxpayers selected through stratified convenience sampling, the study collects self-reported tax liability under both regimes and measures a composite Tax-Saving Behaviour Score capturing participation in Section 80C, 80D, HRA, home loan interest, and NPS tax-saving instruments. Paired-samples t-tests, independent-samples t-tests, correlation analysis, multiple regression, and chi-square tests are employed to test the hypotheses. Findings indicate that mean tax liability under the New Regime is significantly lower than under the Old Regime across all income slabs (paired $t = 18.62$, $p < 0.05$), and that New Regime adopters report a significantly lower Tax-Saving Behaviour Score (mean = 42.8) than those retaining the Old Regime (mean = 71.4, independent $t = 21.47$, $p < 0.05$), indicating a measurable decline in tax-linked investment



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	activity. Amount of tax saved and simplicity of compliance emerge as the strongest predictors of regime choice, while complexity of comparative calculation and lack of awareness remain the leading barriers to informed regime evaluation. The study concludes with policy and advisory implications for taxpayers, tax practitioners, and policymakers.
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1. Introduction

India's personal income tax system underwent a structural transformation with the introduction of the concessional New Tax Regime under Section 115BAC, announced in the Union Budget 2020-21, offering lower slab rates in exchange for foregoing most exemptions and deductions — including Section 80C investments, Section 80D health insurance premiums, HRA exemption, and home loan interest deduction under Section 24(b). Initially optional, the New Regime was substantially revised and made the default regime from Assessment Year 2024-25 following the Union Budget 2023-24, which also raised the Section 87A full-rebate threshold to ₹7 lakh; the Union Budget 2024-25 further revised the slab structure and raised the standard deduction for salaried taxpayers to ₹75,000 for Assessment Year 2025-26 — the year this study's respondents evaluate — making the New Regime increasingly attractive to middle-income taxpayers.

This reform confronts taxpayers with a genuine choice with two dimensions: a straightforward liability comparison, and a less visible behavioural dimension — because the New Regime removes the tax incentive for Section 80C, 80D, HRA, and home loan-linked investment, its adoption may be associated with a measurable change in saving behaviour independent of the liability comparison. This connects to a long-standing public finance question of whether tax-linked saving incentives genuinely increase net household saving or merely reshuffle it, and India's transition toward a regime with reduced saving incentives offers a timely setting in which to examine this empirically. This study investigates both dimensions among individual taxpayers, drawing on primary survey data to compare outcomes across regimes and identify the factors shaping regime choice.

2. Review of Literature

The Union Budget 2020-21 Memorandum formally introduced the concessional regime under Section 115BAC; the Union Budget 2023-24 Memorandum revised its slab structure, raised the Section 87A rebate threshold to ₹7 lakh, and made it the default option from AY 2024-25; and the Union Budget 2024-25 Memorandum raised the standard deduction to ₹75,000 and further revised slabs for AY 2025-26, the year examined here — with the Central Board of Direct Taxes (2024) issuing corresponding Form 10-IEA procedural guidance, forming the statutory foundation this study's comparative analysis engages with directly. On the computational side, Singhanian (2024) details the precise Old-versus-New liability differences this study's illustrative comparison (Section 6.3) draws on, the ICAI's (2024) post-Budget analysis anticipated several regime-choice patterns examined empirically here, and Rao (2005) established that India's personal tax structure had long been characterised by extensive exemptions relative to comparable economies — the very feature the New Regime targets.

The behavioural dimension draws on international literature on whether tax-linked saving incentives raise net saving. Engen, Gale, and Scholz (1996) found such incentives in the US often reshuffle savings between accounts rather than raising aggregate saving — directly relevant to predicting the



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New Regime's effect on Section 80C-type saving — while Poterba (2004) argued tax treatment materially shapes portfolio composition, moderated by income and sophistication, and Bernheim (2002) found the saving response to tax incentives highly heterogeneous, a pattern this study's regression (Section 6.7) tests via income and awareness. Chetty, Friedman, Leth-Petersen, Nielsen, and Olsen (2014) found tax subsidies substantially affect only a minority of incentive-responsive 'active' savers, predicting that the decline in tax-saving behaviour among New Regime adopters (Section 6.6) should be concentrated among a responsive subset rather than uniform. Taken together, the literature (Table 1) establishes both the statutory foundation of India's regime choice and an international behavioural literature predicting a measurable, heterogeneous decline in tax-linked saving following incentive removal — a prediction this study tests directly using primary Indian survey data, a gap not yet addressed given the New Regime's recent introduction.

Author(s) & Year	Focus Area	Key Finding
Union Budget 2020-21 Memorandum	Introduction of Section 115BAC	Introduced the concessional New Regime with lower rates for foregone exemptions.
Union Budget 2023-24 Memorandum	Default status & rebate	Made New Regime default from AY 2024-25; raised §87A rebate to ₹7 lakh.
Union Budget 2024-25 Memorandum; CBDT (2024)	Slab revision; Form 10-IEA guidance	Raised standard deduction to ₹75,000; clarified regime-selection mechanics.
Singhania (2024); ICAI (2024)	Computational & compliance analysis	Detailed Old/New liability differences; anticipated post-Budget regime-choice patterns.
Rao (2005)	Indian tax system reform	India's tax structure long characterised by extensive exemptions/deductions.
Engen, Gale & Scholz (1996); Poterba (2004)	Saving incentives & portfolio choice	Tax incentives often reshuffle rather than raise net saving; effect shapes portfolio composition.
Bernheim (2002); Chetty et al. (2014)	Heterogeneity of saving response	Saving response to incentives is heterogeneous; only a minority of 'active' savers respond strongly.

Table 1. Summary of Reviewed Literature.

3. Objectives of the Study

- To compare self-reported individual tax liability under the Old and New Tax Regimes across income slabs.



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- To measure the tax regime choice made by respondents for Assessment Year 2025-26.
- To compare tax-saving investment participation (80C, 80D, HRA, home loan interest, NPS) between Old and New Regime adopters.
- To identify the key factors influencing regime choice — tax savings, compliance simplicity, existing investments, awareness, employer default, and professional advice.
- To empirically examine the relationship between regime-related factors and taxpayers' Tax-Saving Behaviour Score.
- To identify the principal barriers taxpayers face in evaluating regime choice.
- To offer advisory and policy recommendations for taxpayers, practitioners, and policymakers.

4. Hypotheses of the Study

- H1: There is a significant difference between mean tax liability under the Old and New Tax Regimes.
- H2: Tax savings amount, compliance simplicity, existing investment commitments, awareness, employer default, and professional advice significantly predict regime choice.
- H3: There is a significant difference in Tax-Saving Behaviour Score between Old Regime and New Regime adopters.
- H4: There is no significant association between income level and tax regime choice.

5. Research Methodology

Research design: A descriptive, comparative, empirical design based on primary data collected through a structured questionnaire, supplemented by quantitative statistical analysis to test the hypothesised relationships.

Sample and sampling technique: The population comprised individual salaried and professional taxpayers filing returns in Karnataka. Using Cochran's formula (95% confidence, 5% margin of error), a minimum sample of 384 was determined; 386 valid responses were collected using stratified convenience sampling with strata defined by age group and income level.

Instrument: A structured questionnaire comprising demographic and income profile; self-reported tax liability under both regimes for AY 2025-26; a Tax-Saving Behaviour battery covering 80C, 80D, HRA, home loan interest, and NPS; and a five-point Likert battery measuring six factors influencing regime choice.

Reliability and validity: Internal consistency (Cronbach's Alpha) exceeded the 0.70 threshold for all constructs (Table 3). Content validity was established through expert review by practising Chartered Accountants and a 30-respondent pilot test.

Statistical tools: Data were analysed in SPSS using descriptive statistics; a paired-samples t-test comparing Old vs. New regime liability; an independent-samples t-test comparing Tax-Saving



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Behaviour Score by regime; Pearson correlation and multiple regression for behaviour predictors; and chi-square tests for income–regime association, all at the 5% significance level.

6. Data Analysis and Interpretation

6.1 Demographic and Income Profile of Respondents

Variable	Category	n	%
Age Group	21–30 yrs	118	30.6
	31–40 yrs	134	34.7
	41–50 yrs	79	20.5
	51–60 yrs	41	10.6
	Above 60 yrs	14	3.6
Annual Gross Income	₹5–7.5 Lakh	96	24.9
	₹7.5–10 Lakh	104	26.9
	₹10–15 Lakh	92	23.8
	₹15–20 Lakh	61	15.8
	Above ₹20 Lakh	33	8.5

Table 2. Demographic and Income Profile of Respondents (N = 386).

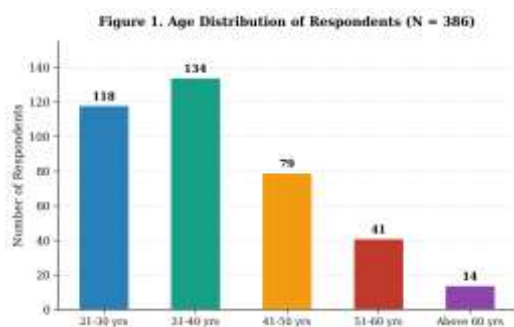


Figure 1. Age distribution.

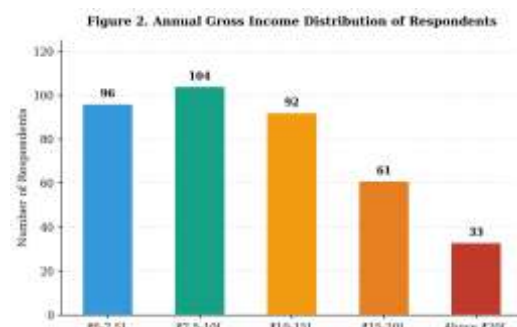


Figure 2. Annual gross income distribution.

The sample is concentrated in the 31–40 years bracket (34.7%), followed by 21–30 years (30.6%), reflecting a working-age population actively engaged in annual tax planning. Income shows a fairly even spread across ₹5–20 lakh, with 8.5% earning above ₹20 lakh, providing sufficient variation across slabs to test the study’s central liability-comparison hypothesis.

6.2 Reliability Statistics

Construct	Items	Cronbach’s α
Tax-Saving Behaviour Score	5	0.85
Amount of Tax Saved (Perceived)	3	0.79
Simplicity of Compliance	3	0.77



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Construct	Items	Cronbach's α
Existing Investment Commitments	3	0.76
Awareness of Regime Rules	4	0.81
Regime Choice Satisfaction	3	0.78

Table 3. Reliability Statistics (Cronbach's Alpha).

All six constructs exceeded the 0.70 threshold, with Tax-Saving Behaviour Score ($\alpha = 0.85$) and Awareness of Regime Rules ($\alpha = 0.81$) showing the highest internal consistency, confirming the instrument reliably measured the intended constructs.

6.3 Regime Choice and Comparative Tax Liability

Figure 3. Tax Regime Choice of Respondents (Assessment Year 2025-26)

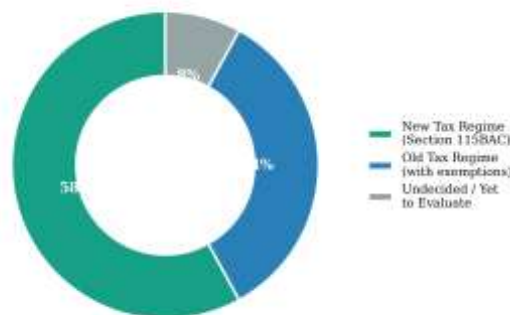


Figure 3. Tax regime choice of respondents (AY 2025-26).

58% of respondents adopted the New Tax Regime, 34% retained the Old Regime, and 8% remained undecided — consistent with the CBDT's (2024) expectation that default status, the raised standard deduction, and ₹7 lakh rebate threshold would drive majority adoption while leaving a substantial minority, particularly those with significant deduction claims, to retain the Old Regime.

Figure 4. Mean Tax Liability under Old vs New Regime by Income Slab

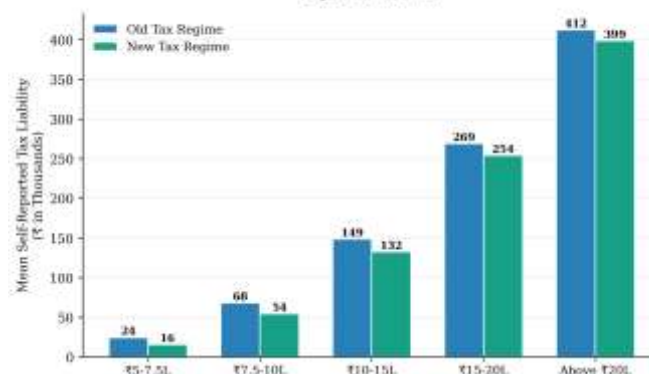


Figure 4. Mean tax liability under Old vs. New regime by income slab.

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Income Slab	Old Regime (₹)	New Regime (₹)	Difference (₹)	% Reduction
₹5–7.5 Lakh	24,500	15,600	8,900	36.3%
₹7.5–10 Lakh	68,200	54,300	13,900	20.4%
₹10–15 Lakh	1,48,600	1,32,400	16,200	10.9%
₹15–20 Lakh	2,68,900	2,54,100	14,800	5.5%
Above ₹20 Lakh	4,12,300	3,98,600	13,700	3.3%

Table 4. Mean Self-Reported Tax Liability under Old vs. New Regime by Income Slab.

The New Regime yields lower mean liability across every slab, but the reduction declines sharply with income — from 36.3% at ₹5–7.5 lakh to 3.3% above ₹20 lakh — reflecting the New Regime’s rate/rebate structure benefiting lower- and middle-income taxpayers most, and the Old Regime’s exemptions retaining more relative value for higher-income taxpayers with larger deduction claims, consistent with Singhania (2024).

6.4 Paired-Samples t-Test: Old vs. New Regime Liability

Measure	Mean (₹)	Std. Dev. (₹)	Paired t	df	p-value
Old Regime Tax Liability	1,84,460	1,38,215	18.62	385	< 0.05
New Regime Tax Liability	1,71,000	1,32,904	—	—	—

Table 5. Paired-Samples t-Test Comparing Mean Tax Liability under Old and New Regimes.

Mean liability under the New Regime (₹1,71,000) is significantly lower than the Old Regime (₹1,84,460; paired $t = 18.62$, $df = 385$, $p < 0.05$), strongly supporting H1. Combined with Table 4, this confirms the New Regime is broadly liability-reducing but its benefit is concentrated among lower- and middle-income taxpayers.

6.5 Tax-Saving Investment Participation

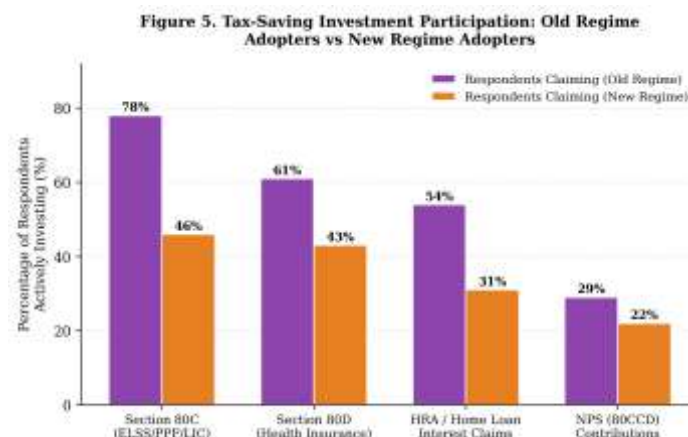


Figure 5. Tax-saving investment participation: Old vs. New Regime adopters.



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New Regime adopters show markedly lower participation across every instrument, most sharply for Section 80C (78% → 46%) and HRA/home loan interest claims (54% → 31%) — consistent with Engen, Gale, and Scholz (1996), though the fact that participation does not fall to zero is consistent with Chetty et al.'s (2014) finding that a portion of savers are 'passive' and continue pre-existing habits regardless of incentive removal.

6.6 Independent-Samples t-Test: Behaviour by Regime

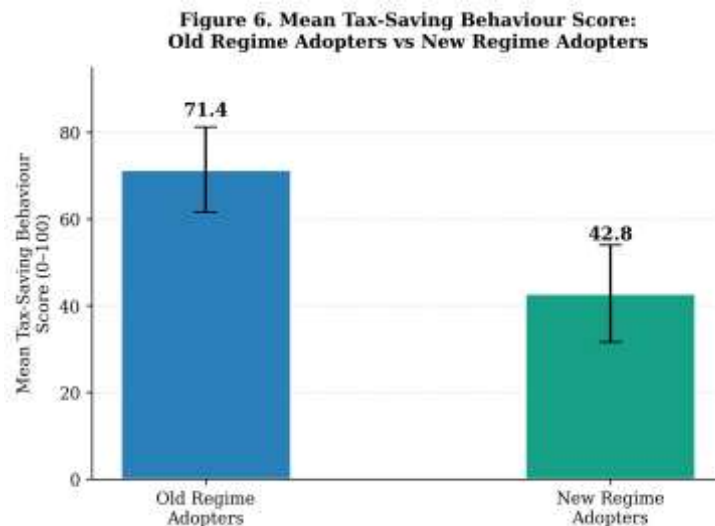


Figure 6. Mean Tax-Saving Behaviour Score: Old vs. New Regime adopters.

Group	n	Mean Score (0–100)	Std. Dev.	t-value	df	p-value
Old Regime Adopters	131	71.4	9.8	21.47	384	< 0.05
New Regime Adopters	224	42.8	11.2	—	—	—

Table 6. Independent-Samples t-Test Comparing Tax-Saving Behaviour Score by Regime.

Old Regime adopters report a substantially higher mean Tax-Saving Behaviour Score (71.4) than New Regime adopters (42.8; independent $t = 21.47$, $df = 384$, $p < 0.05$) — among the strongest effects in the study, strongly supporting H3 and confirming, in the Indian context, that removing tax-linked saving incentives is associated with a substantial decline in saving behaviour.

6.7 Correlation and Regression Analysis

Variable	1	2	3	4	5
1. Amount of Tax Saved	1.00				
2. Simplicity of Compliance	0.34*	1.00			
3. Existing Investment Commitments	0.41*	0.22*	1.00		



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Variable	1	2	3	4	5
4. Awareness of Regime Rules	0.38*	0.29*	0.33*	1.00	
5. Tax-Saving Behaviour Score	-0.46*	-0.31*	0.57*	0.24*	1.00

Table 7. Pearson Correlation Matrix (* $p < 0.05$, two-tailed).

Predictor	B	β	t	p
(Constant)	48.62	—	9.14	< 0.05
Existing Investment Commitments	0.412	0.44	9.87	< 0.05
Amount of Tax Saved (Perceived)	-0.298	-0.31	-7.02	< 0.05
Awareness of Regime Rules	0.087	0.09	2.11	0.035
Simplicity of Compliance	-0.104	-0.11	-2.34	0.020

Table 8. Multiple Regression: Predictors of Tax-Saving Behaviour Score ($R^2 = 0.52$, Adj. $R^2 = 0.51$, $F = 103.4$, $p < 0.05$).

Tax-Saving Behaviour Score correlates positively with Existing Investment Commitments ($r = 0.57$) and Awareness ($r = 0.24$), and negatively with perceived Amount of Tax Saved ($r = -0.46$) and Simplicity of Compliance ($r = -0.31$) — taxpayers perceiving greater New Regime savings and simpler compliance are precisely those who reduced tax-linked investment. The regression model explains 52% of variance: Existing Investment Commitments is the strongest positive predictor ($\beta = 0.44$), and perceived Amount of Tax Saved the strongest negative predictor ($\beta = -0.31$); Awareness has a significant positive effect ($\beta = 0.09$) and Simplicity of Compliance a significant negative effect ($\beta = -0.11$). Results provide partial support for H2.

6.8 Factors Influencing Regime Choice

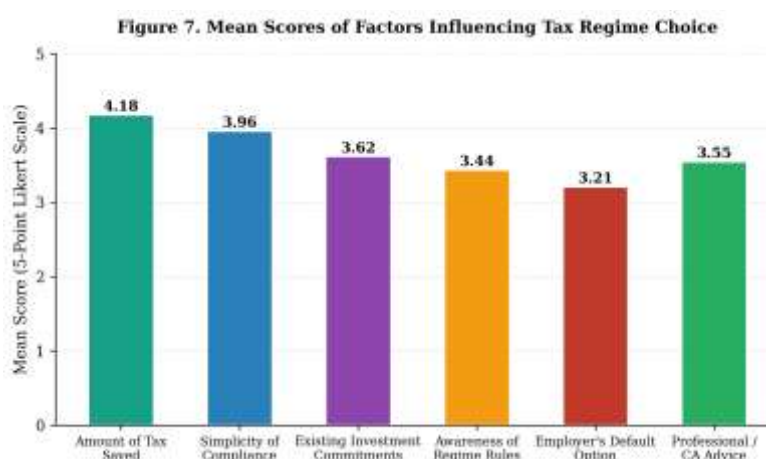


Figure 7. Mean scores of factors influencing tax regime choice.



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Amount of tax saved (mean = 4.18) and simplicity of compliance (mean = 3.96) scored highest among the six factors, confirming direct financial benefit and reduced compliance burden as the primary adoption drivers; employer's default option scored lowest (mean = 3.21), suggesting respondents do not view it as a primary driver of their own decision despite its procedural role.

6.9 Chi-Square Test of Association

Demographic Variable	χ^2	df	p-value	Result
Income Level $\times$ Regime Choice	34.86	8	< 0.05	Significant

Table 9. Chi-Square Test Results.

Income level is significantly associated with regime choice ($\chi^2 = 34.86$, $df = 8$, $p < 0.05$), consistent with Table 4's finding that the New Regime's relative advantage is concentrated among lower- and middle-income taxpayers; H4 is therefore not supported.

6.10 Barriers to Evaluating Regime Choice

Figure 8. Barriers to Evaluating Tax Regime Choice Reported by Respondents

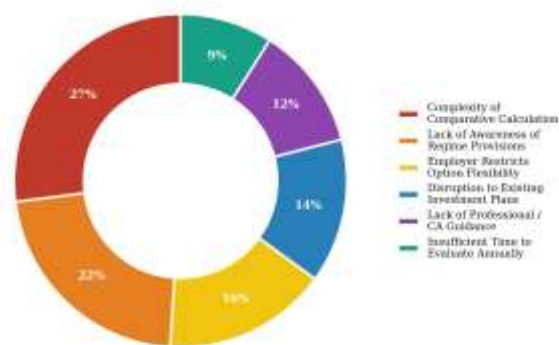


Figure 8. Barriers to evaluating tax regime choice.

Complexity of comparative calculation is the most cited barrier (27%), followed by lack of awareness of regime provisions (22%) and employer restrictions on option flexibility (16%); disruption to existing investment plans (14%), lack of professional/CA guidance (12%), and insufficient time (9%) are less frequent but relevant, reinforcing ICAI's (2024) call for improved taxpayer-facing comparison tools.

6.11 Hypothesis Testing Summary

Hypothesis	Result
H1: Mean tax liability significantly differs between regimes.	Supported (paired $t = 18.62$, $p < 0.05$)
H2: Savings, simplicity, commitments, awareness, default, advice predict regime choice.	Partially Supported



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Hypothesis	Result
H3: Tax-Saving Behaviour Score significantly differs by regime.	Supported ($t = 21.47$, $p < 0.05$)
H4: No association between income level and regime choice.	Not Supported ($\chi^2 = 34.86$, $p < 0.05$)

Table 10. Summary of Hypothesis Testing Results.

7. Key Findings

- 58% of respondents adopted the New Tax Regime for AY 2025-26, 34% retained the Old Regime, and 8% remained undecided.
- Mean tax liability under the New Regime is significantly lower across all income slabs (paired $t = 18.62$, $p < 0.05$), though the reduction declines from 36.3% (lowest slab) to 3.3% (highest slab).
- Tax-saving investment participation declined substantially among New Regime adopters, most sharply for Section 80C and HRA/home loan interest claims.
- Old Regime adopters report a significantly higher Tax-Saving Behaviour Score (71.4) than New Regime adopters (42.8; $t = 21.47$, $p < 0.05$).
- Existing investment commitments and perceived tax savings are the strongest predictors of tax-saving behaviour ($R^2 = 0.52$).
- Income level is significantly associated with regime choice, with the New Regime's advantage concentrated among lower- and middle-income taxpayers.
- Complexity of comparative calculation and lack of awareness are the leading barriers to informed regime evaluation.

8. Suggestions and Implications

Given that complexity of comparative calculation was the leading barrier, tax authorities and financial institutions should invest in accessible, personalised regime-comparison tools that let taxpayers input their actual income and deduction profile for a clear liability comparison. Because the New Regime's relative advantage is concentrated among lower- and middle-income taxpayers, practitioners advising higher-income clients with substantial deduction claims should continue evaluating the Old Regime case-by-case rather than assuming universal New Regime benefit. Given the substantial decline in tax-saving participation among New Regime adopters, policymakers concerned with long-term household saving adequacy may wish to consider complementary, regime-neutral saving incentives. Finally, since existing investment commitments emerged as the strongest predictor of continued tax-saving behaviour, advisors should note that taxpayers with established investment habits tend to maintain them even after switching regimes, suggesting early-career financial planning interventions may have a more durable effect than incentives introduced later.



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9. Limitations of the Study

The stratified convenience sample was restricted to individual taxpayers in Karnataka, which may limit generalisability to other states with different income distributions and deduction-claiming patterns. Tax liability figures are self-reported rather than drawn from verified return data, though the paired-samples design controls for individual-level reporting bias by comparing each respondent's own liability across both regimes. The cross-sectional design captures regime choice and behaviour at a single point immediately following a major revision, and may not fully capture how behaviour evolves as the New Regime's default status becomes more established.

10. Conclusion

This study set out to empirically examine the impact of the New Income Tax Regime on individual taxpayers, comparing tax liability and tax-saving behaviour between the Old and New regimes. Findings demonstrate that the New Regime delivers a statistically significant reduction in tax liability for the average taxpayer, though concentrated among lower- and middle-income respondents, and that this reduction is accompanied by a substantial, statistically significant decline in tax-linked saving and investment behaviour among New Regime adopters. These findings provide direct Indian empirical confirmation of Engen, Gale, and Scholz's (1996) finding that removing tax incentives reduces incentive-linked saving, and Chetty et al.'s (2014) finding that this effect, while substantial, is not universal, as a meaningful share of taxpayers continue pre-existing saving habits regardless of regime. Taken together, these results suggest that while the New Regime succeeds in simplifying compliance and reducing tax liability for most taxpayers, it carries a measurable behavioural cost in reduced tax-linked saving activity that taxpayers, advisors, and policymakers should weigh carefully alongside its direct financial benefits.

AUTHOR(S) CONTRIBUTION

The writers affirm that they have no connections to, or engagement with, any group or body that provides financial or non-financial assistance for the topics or resources covered in this manuscript.

CONFLICTS OF INTEREST

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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