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A study on optional tax regime: Which one is beneficial for tax payers

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Abstract

In India, a new Direct Tax Regime was established in the 2020 Union budget, which will help taxpayer's more and simplified regulations relating to income tax and tax filing. It is clear from looking at many scenarios that both tax systems have benefits and drawbacks. For Indian taxpayer's, the adjustments made don't truly make life simpler. The new tax system is an excellent choice for those who have recently begun working, have a lesser salary and also for people who don't have lot of money. Investing in someone to lower their tax burden is part of the old tax system. However, everyone should bear in mind that your investment and insurance coverage shouldn't be chosen based on Tax Regime you choose.

Keywords: Old tax regime, new tax regime, individual tax payers, deduction

1. Introduction

Budget 2020 in India promised a new Direct Tax system to provide substantial relief to taxpayers and simplify income tax rules. The implementation of a new tax structure aims to free people from their reliance on tax experts and enable them to file their own taxes. For individual taxpayers and HUFs, the new tax system includes lower tax slabs, but they must give up some tax breaks or exemptions. Taxpayers may still claim deductions under Sections 80JJAA (for new employment) and 80CCD (2) (for employer contributions to recognized pension schemes) under the new tax law, nevertheless.

Each person and HUF has the option of continuing with the current tax system or switching to the new one beginning with the 2020–21 fiscal year. The former tax system allowed for a number of exemptions and deductions, but the new tax system offers lower tax rates without exemptions or deductions. According to the rules, the taxpayer must decide which tax system to use while filling out the return. To pay advance tax or TDS on salaries, the tax regime must be chosen at the start of the fiscal year. If one does not inform their employer at the beginning of the fiscal year of their decision to choose the new tax slabs, then employer can deduct TDS according to existing tax regime.

Table 1: Showing slabs for old Tax Regime and New Tax Regime for the financial year 2023-2024

Old Tax Regime		New Tax Regime	
Particular's	Rate	Particular's	Rate
Income up to Rs 2500000	Nil	Income up to Rs 300000	Nil
Next on Rs 250001 to 500000	5%	Next on Rs 300001 to 600000	5%
Next on Rs 500001 to 1000000	20%	Next on Rs 600001 to 900000	10%
Above Rs 1000000	30%	Next on Rs 900001 to 1200000	15%
		Next on Rs 1200001 to 1500000	20%
		Above 1500000	30%

Source: Union Budget 2023

Above Table No-01, it is clear that old tax regime slab and new tax regime slab are different ceiling amount. There are four rates under old tax regime such as 0, 5%, 20% and 30%, there are six rates under New Tax Regime like 0, 5%, 10%, 15%, 20% and 30%. Here it seems that Small tax payers are beneficial for chose new tax regime because their tax liability is reduced under new tax regime compare to old tax regime.

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Advantage of New Tax Regime

1. **Lower tax rates:** The new tax system has lower tax rates than the previous one. You may increase your cash on hand and save money by doing this.
2. **Simple Tax structure:** under new tax regime is easier than it was under the previous one. You are no longer concerned about claiming numerous exemptions and deductions.
3. **Tax reduction and less compliance:** In comparison to the previous tax system, the new tax system offers more favorable tax rates. Additionally, because the majority of deductions and exemptions are eliminated under the new tax law, fewer evidence are needed, which simplifies the filing process.
4. **Provide flexibility in investment:** In old tax regime, for availing deductions taxpayers have to invest in prescribed instruments and the specified manner according to the income tax laws. Nevertheless, the new taxation system is helpful to taxpayers as it provides flexibility in customizing investment choices.
5. **Helps increasing in liquidity for tax payers:** Due to reduction in new tax rate, taxpayer will have further disposable income. As per old regime those fund used to block in some specified instruments.

Disadvantages of New Tax Regime

The new tax regime are not available any Deduction and exemption according to income tax Act 1961. It can take only standard deduction using the new tax regime. Following deduction are not avail under this regime which are as follow:

1. **Deduction under Chapter VI-A The following portions are different:** 80C, 80CCD, 80CCC, 80DD, 80D, 80DDB, 80EE, 80E, 80EEA, 80EEB, 80GG, 80G, 80GGC, 80GGA, 80IA, 80-IB, etc. Still, under the current regime, one may deduct contributions made by their employer to their employee's notified pension plan under section 80CCD sub-section (2) as well as section 80JJAA (for new employment).
2. **The following Section 10 clauses are mention below**
 - a) Concession for leave travel
 - b) House Rent Allowance - Clause (13A)
 - c) The special allowances listed in Rule 2BB (such as the educational allowance for children, the per diem allowance, the uniform allowance, the transportation allowance, etc.).Section (14)
 - d) MP/MLA-Related Allowances - Clause (17)
 - e) Compensation for pooling minors' income-Clause (32)
3. Interest of self-occupied or vacant property under clause section 24 (loss suffered for the head IFHP of rented house shall not be allowed to be set off under any other head and would be allowed to be c/f as per extant law).
4. Deduction from family pension section 57.
5. Deduction from entertainment allowance section 16 (ii) etc.

Advantages of old tax regime

1. Taxpayers have been compelled to invest in tax-saving tools as required by law for a long time because of an

outdated taxation system. Individuals were taught regular saving habits by this technique. This fund might be useful for a variety of future events, including home or property purchases, schooling, marriage, and medical expenses.

2. As of March 2019, India's gross savings were about 30%. The ancient taxing system, which instilled saving ideals among taxpayers, is one of the causes of this high saving rate. Individuals in India contribute significantly to the nation's overall savings rate. The current tax system poses a danger to savings rates in the event that more taxpayers choose for it. Those who opt to pay new taxes would prefer.

Disadvantages of old tax regime are reported as follow

1. For availing tax benefit from the existing taxation regime, one has to investment in the specified financial instruments and the fund will lock for three-five years. This type of investment is not a better choice for millennials for tax-saving option. As they prefer to spend than save. For senior citizens liquidity of fund invested is the top most priority. So they also select the select the open ended fund which provide flexibility and also decent returns. In above mentioned cases old taxation regime is not favorable.
2. The individuals cannot select any best performing funds as those fund need to invest funds in tax saving instrument to decrease tax burden. These tax saving options carry typically lesser or no risk and do not offer substantial returns considering the duration of investment.
3. Individual tax payer has to maintain all the proofs and documents related to the deduction and exemption availed under old taxation regime. It needs to be submitted to income tax department at the time of income tax filing.

Literature review

S.M Alagappan (2019) ^[1] stated taxation is an instrumental tool to procure resources for the government to enable it to formulate policy schemes for the overall development of the economy.

Artan nimani (2015) ^[2] discovered that taxes have fundamental role in the construction of the business reforms and strategy and as such is essential to the overall climate for doing the business.

Monika sehrawat (2015) ^[4] believes that comprehensive tax system is the one that will subsume all indirect taxes of the state and central government and unified economy into a seamless national market. She also states GST is expected to iron out wrinkles from the indirect tax system and plays a vital role in growth of India. Mukesh kumar (2014) ^[5] argues that with the Advancement of technology and use of internet in the financial and fiscal affairs globally has necessitated the e- filling of income tax and also discussed the role of intermediaries with the government to overcome the problems relating to e- filling of tax.

Yan chengliang (2009) ^[7] stated structure of taxation and government expenditures could effect on households labor-leisure choice, saving consumption choice and proportion of government expenditure to GDP.

Lokesh gautham (2013) ^[3] says tax planning is essential

because it is an important aspect of financial planning. It is done by legitimately taking advantage of all tax exemptions, deductions, rebates and allowances while ensuring that your investments are in line with long-term goal.

William G. Gale (2016) [6] stated changes to the individual income tax affect long-term economic growth and structure and financing of a tax change are critical for achieving economic growth since tax rate cuts may encourage the individual to work, save and invest more.

Objective of the study

1. To study the comparison between old tax regime and new tax regime under taxation system.
2. To study the mindset of tax payers to chose tax regime.
3. To study which types of regime are beneficial for tax payers
4. To study the influence of optional tax regime in coming financial year.
5. To create awareness among tax payer about the newly introduced optional tax regime.
6. To evaluate shortcoming of optional tax system.

Research methodology

You may learn more about the optional tax system from this research article, which uses information gathered from both primary and secondary sources. The responders were given a questionnaire in order to gather their feedback. Secondary information is gathered from a variety of websites, publications, newspapers and bulletin. On this subject, a lot of research papers have been examined for improved study presentation. The study is entirely self-study and provides a clear picture of the optional tax regime and applicability in the current scenarios and environment.

Sample size and sampling methods

Sample size taken for this research paper is 37 and convenience sampling methods are used in this study.

Data analysis: Central to the research process are the phases of analysis and interpretation. It entails decomposing already complicated aspects into simpler components and reassembling the components in novel ways for interpreting purposes. Thus, the purpose of analysis is to compile the information so that it may be summarized and used to answer the issues that motivated the study.

Table 1: Gender wise distribution of respondents:

Gender	No of respondent	Percentage
Male	25	50
Female	25	50
Total	50	100

Source: Primary data

Interpretation: Above table No-1 analysis indicate respondent were equally distributed.

Table 2: Age wise distribution of respondents:

Age group	No of respondent	Percentage
Less than age 18 years old	0	0
Age above 18 and up to 30	35	70
Age equal and above 30 years	15	30
Total	50	100

Source: primary data

Interpretation: Above table No-2 analysis indicate majority of the respondent belong to the age group 18 to 30 years.

Table 3: Education qualification

Educational qualification	Respondents	Percentage
Up to intermediate	5	10
Graduate	10	20
Post graduate	35	70
Other	0	0
Total	50	100

Source: Primary data

Interpretation: All the population are highly qualified

Table 4: Occupation

Occupation	respondents	Percentage
Salaried	25	50
Professional	8	16
Students	17	34
total	50	100

Source: Primary data

Interpretation: Above analysis indicate population are distributed among employees, Professional and students.

Table 5: Level of income

Income level	Respondents	percentage
Below 250000	30	60
250000 to 500000	10	20
500000 to 1000000	0	0
1000000 to 1500000	10	20
More than 1500000	0	0
Total	50	100

Source: Primary data

Interpretation: Above table No-5 analysis of data clearly state that most majority of population level of income below 250000 is 60% respondent and less majority of income level below 1500000 is 0%.

Table 6: Need of tax planning before paying tax.

Tax planning	Respondents	Percentage
Yes	45	90
No	0	0
Not sure	5	10
Total	50	100

Source: Primary data

Interpretation: From the above Table No-6 analysis we can conclude that tax planning is essential before paying the tax.

Table 7: Exclusion of deductions from new scheme will put compulsion to follow old scheme.

Perception	Respondents	Percentage
Strongly agree	9	18
Agree	25	50
Neutral	11	22
Disagree	2	4
Strongly disagree	1	2
Total	50	100

Source: Primary data

Interpretation: It is evident from the above table that 18% of respondents strongly believe that the old tax system will be used as a result of the exemption from the new tax system, whilst 50% agree, 22% are unsure, and 4% respondents disagree and 2% respondent are strongly disagree.

Table 8: Tax slabs are shortened in order to simplified tax system

Perception	Respondents	Percentage
Yes	36	72
No	5	10
Not sure	9	18
Total	50	100

Source: Primary data

Interpretation: The preceding data clearly shows that the majority of respondents feel that tax slabs should be lowered to make the tax system simpler.

Table 9: Reasons for changes in tax slabs

Reasons	Respondents	Percentage
Revenue generation	16	32
Reduce corruption activities	22	44
Influence from other country’s tax system	5	10
It is the need of an hour	7	14

Interpretation: It is evident from the above table that the majority of respondents think that the main goals of changing the tax slabs are to increase revenue and decrease corruption.

Findings

1. Respondents were equally distributed.
2. Majority of the population belong to the age group 18 to 29 years.
3. All the respondents are highly qualified.
4. Majority of the respondents were salaried employees.
5. Majority of the respondents belong to the lower and middle income group.
6. Tax planning is essential before paying the tax.
7. Respondents strongly believe that old system of tax will be followed as a result of exclusion of exemption from new tax system.
8. Majority of the respondent’s agrees with the fact tax slabs are shortened to simplify the tax system.
9. Majority of the respondents agrees that tax evasion is common in India.
9. Rebate under Section 87A leads to mis- statement of tax slab up to 5 lakh as nil since majority of the respondent agrees to it.
10. Majority of the respondent disclose the income as it is at the time of payment of tax.
11. New tax system is better compared to old tax system.
12. Most of the respondents believe revenue generation and to reduce corruption is the main reason behind changes in the tax slabs.
13. More than half of the respondents believe that new optional tax regime makes the tax calculation even more difficult.
14. Respondents prefer self-assessment while paying income tax returns.

15. Majority of the respondent pay taxes within a prescribed due date.
16. Respondents were not sure that GST leads to increasing price.
17. Majority of the respondents were not sure that government will remove optional tax system in coming years.
18. Most of the respondent believes that awareness program is required for tax policy to succeed.
19. Majority of the respondents prefer E- filling over Manual Filling of income tax.
20. Respondents believe that there is a lack of strict rules for nonpayment of tax.
21. Majority of the respondents believe that revenue generated from tax is not properly utilized by the government for right purpose.
22. Middle income group suffers most because of optional tax system.

Suggestions

1. Government must create awareness programs before bringing changes in the tax slabs.
2. Funds raised by the government must be used for productive purposes then more people will pay taxes on time.
3. Tax reforms are subject to changes however it is better to not alter tax slabs every year.
4. Instead of giving choice to the Indian taxpayer to choose between the systems it is better to create one stable tax system for payment of taxes.

Limitations

1. Because it doesn't provide a thorough understanding of the issues, data is gathered via a questionnaire.
2. The study's sample size was 50 responders, which is rather small.
3. Because people perceive things differently from one another, data may not be as accurate as they should be.
4. Based only on replies and introspective analysis, conclusions and recommendations are made.

Conclusions

With streamlined tax slabs and no deductions required to receive the advantages of the plan, a new optional tax system has been introduced. The tax slabs have undergone some welcome changes, especially in light of the recent hardships experienced by middle-class families. The government has made it voluntary so that even groups with greater incomes may profit from it. The strategy a person chooses to use, however, will totally depend on his amount of investment, level of income, etc. Huge losses are anticipated for the government, which it can always make up for in other ways. It would be fascinating to observe if Indian taxpayers adopt the new strategy or remain with the current one.

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