New Tax Regime vs. Old Tax Regime

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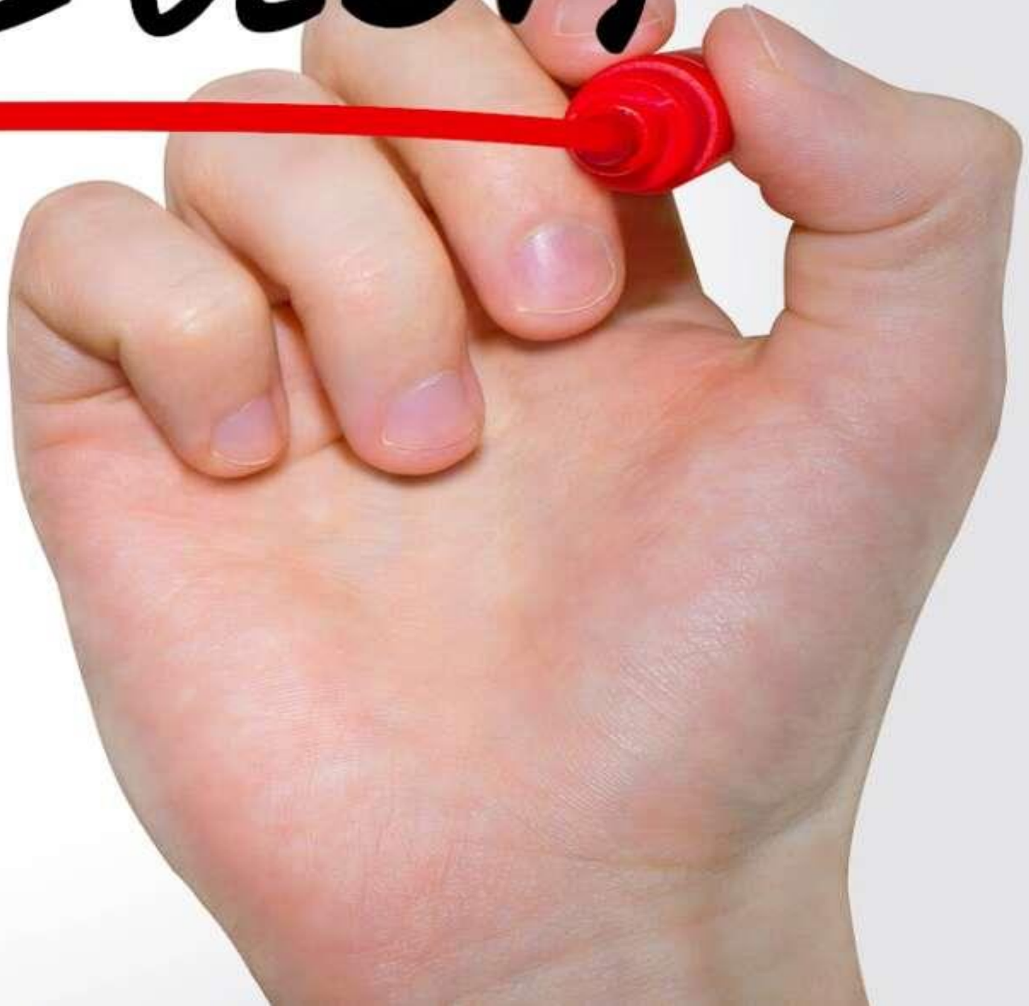
Introduction



A new tax regime was introduced in **Budget 2020** wherein the tax slabs were altered, and taxpayers were offered concessional tax rates under Sec 115BAC of Income Tax Act, 1961.

After the introduction of new tax regime, taxpayers has an **OPTION** to choose either :

- To pay income tax at lower rates as per New Tax regime on the condition that they forgo certain permissible exemptions and deductions available under income tax, Or
- To continue to pay taxes under the existing tax rates. The assessee can avail rebates and exemptions by staying in the old regime and paying tax at the existing higher rate.

What are Income Tax Slab Rates for you after Budget?

Tax Slab under Old Tax Regime

Old income slabs	Tax rates for persons below 60 years	Tax rates for persons between 60 and 80 years	Tax rates for persons above 80 years
Up to Rs. 2,50,000	Nil	Nil	Nil
Rs. 2,50,001 to Rs. 3,00,000	5%	Nil	Nil
Rs. 3,00,001 to Rs. 5,00,000	5%	5%	Nil
Rs. 5,00,001 to Rs. 10,00,000	20%	20%	20%
Above Rs. 10,00,000	30%	30%	30%

Tax Slab under New Tax Regime for AY 2023-24 (FY : 2022-23)

New Tax Regime	
Income Tax Slab	For ALL Age Group
Up to Rs. 2,50,000	Nil
Rs. 2,50,001 to Rs. 5,00,000	5%
Rs. 5,00,001 to Rs. 7,50,000	10%
Rs. 7,50,001 to Rs. 10,00,000	15%
Rs. 10,00,001 to Rs. 12,50,000	20%
Rs. 12,50,001 to Rs. 15,00,000	25%
Above Rs. 15,00,000	30%

Tax Slab under New Tax Regime for AY 2024-25 (FY : 2023-24)

New Tax Regime	
Income Tax Slab	For ALL Age Group
Up to Rs. 3,00,000	Nil
Rs. 3,00,001 to Rs. 6,00,000	5%
Rs. 6,00,001 to Rs. 9,00,000	10%
Rs. 9,00,001 to Rs. 12,00,000	15%
Rs. 12,00,001 to Rs. 15,00,000	20%
Above Rs. 15,00,000	30%

OLD VS NEW Tax Regime

Which is Better?

Old Tax Regime vs. New Tax Regime

- The **old tax regime** has different exemption limits for individuals below the age of 60 years, between 60 and 80 years, and above 80 years.
  Furthermore, the old method allows the assessees to claim various deductions on their tax-saving investments, interest paid on housing loans, etc., and exemptions on different allowances.
- The Income Tax rates are the same across all age groups as per the **new tax regime**. The income slabs are **smaller**, and there are **seven slabs** in the new tax system. Also the new tax regime requires the assessee to **forego a number of deductions and exemptions**.
- An individual or HUF taxpayer (resident and non-resident) may opt for the new tax regime based on the respective applicable deductions/exemptions and sources of income.

Deductions & exemptions to be forgone while opting for the new tax regime

- Leave travel allowance (LTA)
- House rent allowance (HRA)
- Children education allowance
- Standard deduction on salary(up to AY 2023-24)
- Deductions available under Section **80TTA/80TTB**
- Deduction of INR **15,000** from the family pension (Up to AY 2023-24)
- Deduction for professional tax and entertainment allowance in case of government employees.
- Interest paid on housing loan in case of self-occupied property
- Deduction for investments or expenses under Chapter VI-A like:
  - deduction u/s 80C towards contribution to Public Provident Fund, payment of children's tuition fees, life insurance premium, principal on housing loan, etc.
  - other deductions towards medical insurance premium, medical expenditure, interest on education loan, donations, etc.

Income from House Property in the New Tax Regime

- **Interest on home loan of Self Occupied House Property**: Individuals who have taken a home loan on their self-occupied property and are paying interest on it, can not claim that interest deduction under Section 24(b) for the self occupied house property.

- **Interest on home loan of Rental House Property**: Under the new income tax regime, individuals can claim interest on home loans for let-out property ***only up to the amount of their rental income*** declared under the head house property income.

- **Setting off of losses from house property income:** As per the new income tax regime, losses from house property can only be set off against other income from house property. Moreover, losses from income from house property cannot be carried forward in the new income tax regime.

Deduction u/s 80EE & 80EEA for buyers buying their first residential property

- Deduction u/s 80EE & Section 80EEA gives relief on interest paid on home loans for first-time home buyers. This deduction is ***<u>no longer available for taxpayers following the new income tax regime.</u>***

Pros & Cons of New Tax Regime

Benefits of the New Tax Regime

- Reduced Tax Rates and Compliance
- No need to lock-in funds in specified securities for availing tax benefits.
- Increased liquidity in the hands of assessee.

Cons of the New Tax Regime

- Deduction under various section of Income tax not allowed.
- Discourages the Saving habit.

Switching between old and new tax regime

Switching between the old and new to the new tax regime can be done ***<u>either on a year-on-year basis or only once</u>***. However, the frequency mostly depends on the source of income during the year.

- **Income includes income from Business or Profession**
  - In the case where an individual or HUF has income from a business or profession, ***once the option to avail new tax rates for a financial year has been exercised, the new rates shall apply for subsequent years.***
  - However, the law provides such taxpayers' ***one single option of switching back*** to the old tax regime should their circumstances change. This switch-back option is available only once in a lifetime ***unless the taxpayer ceases to have any income from a business or profession***.

Switching between old and new tax regime

- **Income does not includes income from Business or Profession**
  - If an individual or HUF does not possess income from a business or profession, the selection can be made on a ***year-on-year basis.***
  - For individuals with salaries, the employer is required to withhold tax before the payment of the salaries. The employee is, however, required to inform the employer regarding their ***preferred tax rates.***
  - In case of employees, if he/she opts for new tax regime but however during the year made some investment and at the end of financial year it seems that old tax regime is more beneficial then the employee may change the tax regime at the time of filling of return.

Which should a person choose?

- New tax regime vs old which is better, it is a tough question to answer since there's no one correct answer.
- The choice of switching to the new tax regime or staying in the old tax regime, or whether the regime is best for you, must be based on the tax savings deductions and exemptions available in the previous tax system.

Breakeven threshold for deciding between New vs Old tax regimes

In Case of Salary Income:

Deduction / Gross Income	Zero	1,00,000	1,50,000	1,38,500	1,87,500	2,12,500	2,37,500	2,50,000	2,62,500	2,87,500	3,12,500	3,25,000	3,50,000	3,75,000
5,50,000	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same
6,50,000	New	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same
7,00,000	New	Same	Same	Old	Old	Old	Old	Old	Old	Old	Old	Old	Old	Old
8,00,000	New	New	New	Same	Old	Old	Old	Old	Old	Old	Old	Old	Old	Old
8,50,000	New	New	New	New	Same	Old	Old	Old	Old	Old	Old	Old	Old	Old
9,00,000	New	New	New	New	New	Same	Old	Old	Old	Old	Old	Old	Old	Old
9,50,000	New	New	New	New	New	New	Same	Old	Old	Old	Old	Old	Old	Old
10,00,000	New	New	New	New	New	New	New	Same	Old	Old	Old	Old	Old	Old
10,50,000	New	New	New	New	New	New	New	New	Same	Old	Old	Old	Old	Old
11,50,000	New	New	New	New	New	New	New	New	New	Same	Old	Old	Old	Old
12,50,000	New	New	New	New	New	New	New	New	New	New	Same	Old	Old	Old
14,00,000	New	New	New	New	New	New	New	New	New	New	New	Same	Old	Old
14,50,000	New	New	New	New	New	New	New	New	New	New	New	New	Same	Old
15,50,000	New	New	New	New	New	New	New	New	New	New	New	New	New	Same
16,00,000	New	New	New	New	New	New	New	New	New	New	New	New	New	Same

Breakeven threshold for deciding between New vs Old tax regimes

In Case of income other than Salary: Income

Deduction / Gross Income	Zero	1,00,000	1,50,000	1,62,500	1,87,500	2,12,500	2,37,500	2,50,000	2,62,500	2,87,500	3,12,500	3,25,000	3,50,000	3,75,000
5,00,000	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same
6,00,000	New	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same	Same
6,50,000	New	Same	Same	Old	Old	Old	Old	Old	Old	Old	Old	Old	Old	Old
7,50,000	New	New	New	Same	Old	Old	Old	Old	Old	Old	Old	Old	Old	Old
8,00,000	New	New	New	New	Same	Old	Old	Old	Old	Old	Old	Old	Old	Old
8,50,000	New	New	New	New	New	Same	Old	Old	Old	Old	Old	Old	Old	Old
9,00,000	New	New	New	New	New	New	Same	Old	Old	Old	Old	Old	Old	Old
9,50,000	New	New	New	New	New	New	New	Same	Old	Old	Old	Old	Old	Old
10,00,000	New	New	New	New	New	New	New	New	Same	Old	Old	Old	Old	Old
11,00,000	New	New	New	New	New	New	New	New	New	Same	Old	Old	Old	Old
12,00,000	New	New	New	New	New	New	New	New	New	New	Same	Old	Old	Old
13,50,000	New	New	New	New	New	New	New	New	New	New	New	Same	Old	Old
14,25,000	New	New	New	New	New	New	New	New	New	New	New	New	Same	Old
15,00,000	New	New	New	New	New	New	New	New	New	New	New	New	New	Same

Thank You

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