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The New Tax Regime and Its Impact on the Disposable Income of Individual Assessee: An Evaluation

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Abstract: In every budget, common man expects the change in income tax slab or deductions available to them would significantly lower their income tax liability. The New Tax Regime was introduced during the Union Budget 2020 and was effective from the financial year 2020-21. The New Tax Regime lower the slab rate but reduces the deductions and exemptions which were available under the Old Tax Regime. The dual benefit of tax reduction, reduction in expenditure/investment to avail deduction and exemption has significantly increased the disposal income of the individual assessee. This paper attempt to study the impact of New Tax Regime on the Disposable income of individual assesses by comparing Old Tax Regime with New Tax Regime.
Keyword: New Tax Regime, Old Tax Regime, Income Tax, Disposable Income, Deductions.

I. INTRODUCTION

India's income tax system has undergone significant transformation with the introduction of the New Tax Regime (NTR) under Section 115BAC of the Income Tax Act, 1961. First introduced in the Union Budget 2020 and made the default regime from April 1, 2023, the NTR represents a paradigm shift from a deduction-heavy tax structure to a simplified, lower-rate framework. The regime aims to reduce compliance burden, eliminate tax-planning complexity, and increase taxpayers' disposable income by offering reduced tax rates across income slabs.

The transition to the NTR has sparked considerable debate among policymakers, tax practitioners, and individual taxpayers. While proponents argue that lower tax rates and simplified compliance enhance disposable income and stimulate consumption, critics contend that the removal of deductions under Sections 80C, 80D, 80G, and housing loan interest (Section 24) may adversely affect long-term savings and investment behavior. Understanding the regime's actual impact on disposable income is crucial for individual financial planning and policy evaluation.

The main objective of this paper are:

1) To analyze the basic differences between the Old and New Tax Regimes
2) To evaluate the impact of the New Tax Regime on disposable income across various income levels
3) To assess the role of Section 87A rebate and standard deduction in increasing disposable income.
4) To examine the impact of immediate disposable income and long-term savings behavior

A. Scope and Limitations

This study focuses on individual resident assessee (excluding senior and super-senior citizens for simplicity) and covers the tax provisions applicable for Financial Year 2025-26 (Assessment Year 2026-27). The research is based on secondary data and does not include primary survey responses. Limitations include the dynamic nature of tax policy and the exclusion of indirect tax impacts (GST) on overall household budgets.

II. REVIEW OF LITERATURE

Disposable income, defined as gross income minus direct taxes and mandatory contributions, serves as a critical indicator of individual purchasing power and economic well-being. Tax policy directly influences disposable income through rate structures, exemptions, and rebate mechanisms.

Recent studies highlight the impact of new tax regime on savings patterns. Research by Rungta and Kumar (2026) had highlighted that rebate u/s 87A and standard deduction had increased post-tax income for lower and lower-upper middle individual assessee.

Shevate (2020) and Garg (2021) noted that the removal of documentary verification (such as rent receipts, insurance premia receipts, and home loan interest certificates) substantially decreases compliance burdens and processing for both the assessee and tax administration. Mehta (2024) and Deshpande and Rakshe (2025) identified change in investment from traditional low return investment to risk taking high return investment.

III. RESEARCH METHODOLOGY

This study employs a Descriptive Research Design, which is appropriate for systematically describing the characteristics of the New Tax Regime and its impact on disposable income. This research is based exclusively on Secondary Data

A. Income Slab Comparison: New Tax Regime vs. Old Tax Regime Slabs

The comparative tax structures applicable to an individual assessee (below 60 years of age) under the respective regimes are outlined below:

Taxable Income Slabs (INR)			
New Tax Regime (Sec 115BAC)		Old Tax Regime	
Slabs (INR)	Tax Rate	Slabs (INR)	Tax Rate
0 – 4,00,000	Nil	0 – 2,50,000	Nil
4,00,001 – 8,00,000	5%	2,50,001 – 5,00,000	5%
8,00,001 – 12,00,000	10%	5,00,001 – 10,00,000	20%
12,00,001 – 16,00,000	15%	Above 10,00,000	30%
16,00,001 – 20,00,000	20%		
20,00,001 – 24,00,000	25%		
Above 24,00,000	30%		

Key Differences:

1) Standard Deduction (Salaried): ₹75,000 under New Tax Regime; ₹50,000 under Old Tax Regime.
2) Section 87A Rebate: Up to ₹60,000 under New Tax Regime (taxable income up to ₹12,00,000 pays zero tax); up to ₹12,500 under Old Tax Regime (taxable income up to ₹5,00,000 pays zero tax).
3) Health & Education Cess: 4% levied on total tax liability under both regimes.
4) Eligible Deductions under Old Tax Regime allows exemption House Rent Allowance, Section 24(b) of Home loan interest up to ₹2,00,000 for self-occupied house, deduction u/s 80C allowed upto ₹1,50,000, deduction in respected of Medical Insurance premium u/s 80D up to ₹25,000 to ₹1,00,000, and self-contribution to National Pension Scheme u/s 80CCD(1B) up to ₹50,000 and deduction u/s 80G relating to Donation. An assessee opting New Tax Regime cannot claim following exemptions and deductions.

IV. METHODOLOGY & DISPOSABLE INCOME CALCULATION

To measure the impact on disposable income, consider a salaried individual across four gross salary profiles: ₹10,00,000 and ₹15,00,000considering standard deduction Rs. 75,000 under old tax regime and Rs. 50,000 under new tax regime, assuming deduction amount of Rs. 1,50,000 u/s 80C, Rs. 50,000 u/s 80CCD(1B), Rs. 25,000 under 80D, Home Loan Interest of Rs. 2,00,000. The Total amount of deduction available under old tax regime is Rs. 2,25,000 assuming this amount would add to disposable income of assessee if new tax regime is opted.

Table 1: Tax Liability and Disposable Income Calculation if Gross Salary is Rs. 10,00,000

Gross Salary : 10,00,000		
Gross Salary	10,00,000	1000000
Less: Standard Deduction	75000	50000
Taxable Salary	9,25,000	950000
Less: Home Loan Interest	---	200000
Less: Deductions u/s 80	---	225000
Taxable Income	9,25,000	525000

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Income Tax					
Up to 400000	Nil		Up to 250000	Nil	
Next 400000	5%	20000	Next 250000	5%	12500
on Remaining 125000	10%	12500	on Remaining 25000	20%	5000
		32500			17500
Less: Rebate u/s 87A		-32500			
Add: Education Cess@4%		Nil			700
	Tax Liability	Nil			18200
Tax Saving Under New Tax Regime (18200-Nil)					18200
Increase in Disposable Income					225000
Total Disposable Income available if new tax regime is opted					252300

Table 2: Tax Liability and Disposable Income Calculation if Gross Salary is Rs. 15,00,000

Gross Salary : 15,00,000		
Gross Salary	1500000	1500000
Less: Standard Deduction	75000	50000
Taxable Salary	1425000	1450000
Less: Home Loan Interest	---	200000
Less: Deductions u/s 80	---	225000
Taxable Income	1425000	1025000

Income Tax					
Up to 400000	Nil		Up to 250000	Nil	
Next 400000	5%	20000	Next 250000	5%	12500
Next 400000	10%	40000	Next 500000	20%	100000
on Remaining 225000	15%	33750	on Remaining 25000	30%	7500
		93750			120000
Add: Education Cess@4%		3750			4800
	Tax Liability	97500			124800
Tax Saving Under New Tax Regime (124800-97500)					27300
Increase in Disposable Income					225000
Total Disposable Income available if new tax regime is opted					252300

V. CONCLUSION

Under the new tax regime if the gross salary of the individual assessee is upto 12,75,000 and considering deductions of Rs. 4,25,000 available under old tax regime, the individual assessee disposable income increases if the assessee opts for new tax regime. Under the new tax regime, on the part of assessee and income tax department, there is an ease relating to documentation burden, simplification and increase in disposable income are the key benefits available as comparted to old tax regime. If the disposable income on the part of individual assessee are invested efficiently, it will create long term financial stability and security/protection to them. But alternatively, they are not bound to invest on the instruments which secures their life, protect against health issue which leads to an adverse impact on them. From the economic point of view, it leads to both revenue and capital expenditure and have a positive impact on the economy.

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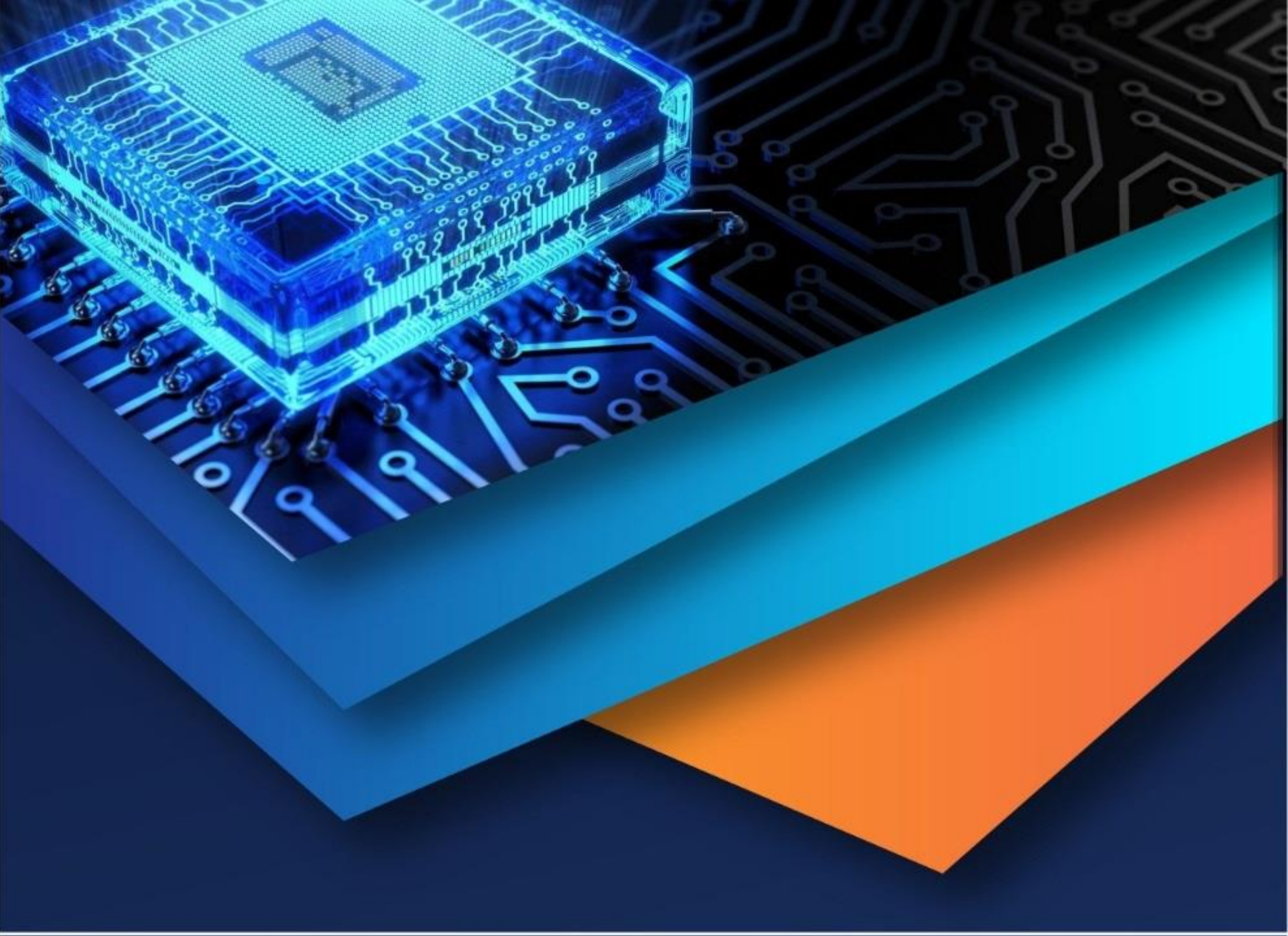

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