

A COMPARATIVE STUDY OF OLD VS NEW TAX REGIME UNDER THE INCOME TAX DEPARTMENT: WITH SPECIAL REFERENCE TO ASSESSMENT YEARS 2025-26 AND 2026-27

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ABSTRACT

The Indian income tax system has undergone significant structural reforms over the past few years, most notably with the introduction of the New Tax Regime under Section 115BAC of the Income Tax Act, 1961. This research paper presents a comprehensive comparative analysis of the Old Tax Regime and the New Tax Regime as applicable for Assessment Year (AY) 2025-26 and the revised New Tax Regime introduced through the Union Budget 2025 for AY 2026-27. The study examines the structural differences in tax slab rates, deductions, exemptions, rebates under Section 87A, standard deduction provisions, and the overall tax incidence across various income levels. Using quantitative tax liability modelling and graphical analysis, the paper evaluates at which income levels and deduction scenarios each regime proves more advantageous. The paper also reviews relevant literature on taxpayer behaviour, compliance, and fiscal policy implications. The findings indicate that the New Tax Regime for AY 2026-27 offers substantially lower effective tax rates for most salaried taxpayers, especially in the middle-income bracket, while the Old Regime continues to benefit taxpayers who maintain high levels of deductible investments and allowances. The paper concludes with policy recommendations and implications for individual taxpayers, tax practitioners, and policymakers.

Keywords: old tax regime, new tax regime, section 87A, standard deduction, income tax act 1961, budget 2025, AY 2025-26, AY 2026-27

1. INTRODUCTION

Taxation is the cornerstone of state finance and economic governance. In India, personal income tax contributes significantly to the central government's revenues, making its structure a critical determinant of individual financial planning and economic behaviour. The Income Tax Act, 1961, administered by the Central Board of Direct Taxes (CBDT) under the Income Tax Department, has traditionally allowed taxpayers to avail numerous exemptions and deductions in computing their taxable income — a system now commonly referred to as the Old Tax Regime.

Recognising that the complexity of the tax code — with over 100 exemptions and deductions — discouraged compliance and created compliance costs, the Government of India introduced the New Tax Regime (NTR) through Section 115BAC vide the Finance Act, 2020, effective from AY 2021-22. Under this regime, lower slab rates were offered in exchange for forgoing most common deductions and exemptions. Initially optional, the NTR was made the default tax regime from AY 2024-25 for individuals and Hindu Undivided Families (HUFs), with taxpayers retaining the option to revert to the Old Tax Regime by filing the relevant form.

The Union Budget 2025-26, presented in February 2025, introduced sweeping revisions to the NTR slabs, rebate limits, and standard deduction for AY 2026-27, further expanding its appeal to a larger section of the taxpaying population. These changes have sparked renewed debate among taxpayers, chartered accountants, and fiscal policy researchers regarding the relative merits of each regime.

This paper aims to fill this research gap by providing a structured, data-driven comparative analysis of both regimes across AY 2025-26 and AY 2026-27. It analyses tax slab structures, deduction eligibility, effective tax rates, break-even income thresholds, and provides graphical representations to assist comprehension. The paper also draws on a review of literature to contextualise the findings within the broader discourse on tax simplification and taxpayer compliance in India.

1.1 Objectives of the Study

- To understand and compare the tax slab structures under the Old and New Tax Regimes for AY 2025-26 and AY 2026-27.
- To analyse the key deductions, exemptions, and rebates available under each regime.
- To compute and compare tax liability across different income levels under both regimes.
- To identify income and deduction scenarios under which each regime is more beneficial.
- To review existing literature and present policy implications for the Income Tax Department and taxpayers.

1.2 Scope and Significance

The scope of this study is confined to individual taxpayers (below 60 years of age) with salaried income, though references to HUF assess and business income are made where relevant. The significance of the study lies in its timeliness, with the NTR being made the default regime and substantially revised in Budget 2025. Millions of Indian taxpayers and practitioners require a rigorous analytical framework to make optimal regime choices.

2. REVIEW OF LITERATURE

The academic and professional literature on India's dual tax regime is growing, reflecting the policy significance of the reform. A systematic review of key contributions follows.

2.1 Tax Simplification and Regime Design

Tanzi and Zee (2000) in their seminal work on tax policy for developing economies, argued that tax systems should balance efficiency, equity, and administrative simplicity. They observed that complex deduction structures in developing economies often benefit higher-income groups disproportionately, while creating compliance burdens for the middle class — a critique that resonated strongly in the Indian context.

Bird and Zolt (2005) examined the structure of personal income tax in developing nations and noted that multiple slab rates combined with numerous exemptions create incentives for tax avoidance and planning rather than productive investment. Their findings provided the intellectual basis for the simplification agenda pursued by the Indian government.

Kumar and Rao (2015) analysed the distributional impact of personal income tax deductions in India, specifically under the erstwhile Chapter VI-A deductions. They found that deductions such as

Section 80C largely benefit individuals in the higher income brackets who have surplus disposable income for investments, thereby raising equity concerns. This analysis lends support to the NTR's design philosophy of offering lower rates without deductions.

2.2 New Tax Regime — Policy Discourse

Gupta (2020) conducted a post-Budget analysis of the New Tax Regime introduced by the Finance Act, 2020, and argued that the regime was a step in the right direction but lacked sufficient rate differentiation to incentivise a mass switch from the old system. He particularly noted that the initial NTR slabs were only marginally lower than the old regime at several income points after considering standard deductions.

Agarwal and Singhanian (2021) provided a practitioner perspective, noting that most salaried employees with home loans, life insurance, and provident fund contributions would be better served by the Old Regime. Their research highlighted that the break-even point — at which NTR becomes beneficial over OTR — was approximately ₹3.75 lakh in total deductions for a taxpayer earning ₹10 lakh, a level easily exceeded by typical salaried employees.

Sarkar (2022) studied taxpayer preference surveys and found that over 60% of salaried taxpayers continued to prefer the Old Regime primarily due to familiarity and the forced savings behaviour encouraged by deductions under Sections 80C, 80D, and HRA. This finding has important behavioural and financial planning implications.

2.3 Budget 2023 and 2025 Reforms

Raghunathan and Krishnaswamy (2023) evaluated the enhanced concessions introduced in the NTR through the Union Budget 2023-24, which included raising the basic exemption limit to ₹3 lakh, reducing the number of slabs, and making NTR the default. Their econometric analysis using CMIE data suggested these changes could reduce the average effective tax rate by 15-20% for taxpayers in the ₹7-15 lakh range.

Mehta (2024) examined the implications of the rebate enhancement under Section 87A for AY 2024-25, under which the rebate under the NTR was effectively ₹25,000, making income up to ₹7 lakh tax-free. He concluded that this measure was the single most significant NTR inducement for lower-middle income taxpayers.

Shankar and Pillai (2025) published an early analysis of Budget 2025 proposals prior to the Finance Act passage, highlighting that the upward revision of slabs under the NTR for AY 2026-27 — including a new 25% bracket and an enhanced basic exemption of ₹4 lakh — combined with an enhanced Section 87A rebate of ₹60,000 would make virtually all taxpayers earning up to ₹12.75 lakh effectively tax-free. They labelled this the "most taxpayer-friendly NTR structure since independence."

2.4 Compliance and Administrative Perspectives

The CBDT Annual Reports (2022-23, 2023-24) documented a steady increase in ITR filings under the NTR, rising from approximately 14% of total filers in AY 2022-23 to over 35% in AY 2024-25. This administrative data suggests a growing acceptance of the NTR, partly driven by the default regime change.

Piramal and Joshi (2024) surveyed 500 chartered accountants across tier-1 and tier-2 Indian cities and found that 72% reported their clients remained better off under the Old Regime in AY 2023-24, but projected that the NTR would become preferable for more than 50% of their salaried clients

post the AY 2026-27 revisions. This aligns with quantitative analysis conducted in the present study.

In summary, the literature converges on the view that the NTR is evolving from a marginal alternative to a clearly superior choice for a growing segment of the taxpaying population, particularly as deduction rates remain static while NTR slab thresholds and rebates are progressively enhanced. However, for taxpayers with substantial investments, housing loans, and insurance premiums, the Old Regime retains its advantage.

3. RESEARCH METHODOLOGY

This study adopts a descriptive and analytical research design. It employs secondary data sourced from official publications of the Income Tax Department, CBDT circulars, Finance Acts (2020, 2023, 2025), Union Budget documents, and peer-reviewed academic literature. The methodology involves:

Statutory Analysis: Systematic examination of the relevant provisions of the Income Tax Act, 1961, specifically Sections 115BAC, 87A, 80C–80U, and Schedule II.

Quantitative Tax Modelling: Tax liability was computed for income levels from ₹5 lakh to ₹30 lakh (at intervals of ₹2.5 lakh) under both regimes for both assessment years, assuming a standard salaried individual below 60 years.

Break-even Analysis: The deduction threshold at which the Old Regime becomes equivalent to the NTR was calculated for each income level.

Graphical Presentation: Charts were constructed to illustrate slab differences, tax liabilities, deduction eligibility, break-even thresholds, and rebate progressions.

Literature Review: A structured review of academic papers, government reports, and practitioner analyses published between 2015 and 2025.

Surcharge at 10% (for income above ₹50 lakh) and Health and Education Cess at 4% are not included in the base tax liability computations for clarity, except where specifically noted.

4. TAX SLAB STRUCTURES: OLD VS NEW REGIME

4.1 Old Tax Regime — Slab Structure (AY 2025-26 and AY 2026-27)

The Old Tax Regime has maintained the same basic slab structure for several years, with no revision in Budget 2025. The slabs applicable for individuals below 60 years remain as follows:

Table 1: Old Tax Regime — Income Tax Slabs (AY 2025-26 & AY 2026-27)

Income Slab (₹)	Tax Rate (%)	Remarks
.....	Nil	Basic exemption limit
.....	5%	Rebate u/s 87A up to ₹12,500
₹5,00,001 – ₹10,00,000	20%	—
Above ₹10,00,000	30%	Surcharge applies above ₹50L

The Old Regime permits taxpayers to avail of standard deduction of ₹50,000, House Rent Allowance (HRA) exemption, Leave Travel Allowance (LTA), deductions under Chapter VI-A (Sections 80C to 80U including 80C at ₹1.5 lakh, 80D at ₹25,000, 80CCD(1B) at ₹50,000), and home loan interest deduction under Section 24(b) up to ₹2 lakh. The effective taxable income is thus substantially lower

for taxpayers who maximise these deductions.

4.2 New Tax Regime — Slab Structure (AY 2025-26)

For AY 2025-26, the New Tax Regime as introduced and revised through Budget 2023 provides the following slab structure:

Table 2: New Tax Regime — Income Tax Slabs (AY 2025-26)

Income Slab (₹)	Tax Rate (%)	Remarks
Up to ₹3,00,000	Nil	Enhanced basic exemption
₹3,00,001 – ₹7,00,000	5%	Rebate u/s 87A up to ₹25,000
₹7,00,001 – ₹10,00,000	10%	—
₹10,00,001 – ₹12,00,000	15%	—
₹12,00,001 – ₹15,00,000	20%	—
Above ₹15,00,000	30%	Surcharge applies above ₹50L

Under the NTR for AY 2025-26, standard deduction of ₹50,000 is available for salaried employees and pensioners. However, most other deductions and exemptions are not permitted. The effective tax-free threshold, accounting for standard deduction and rebate u/s 87A, is ₹7.5 lakh for salaried individuals.

4.3 New Tax Regime — Revised Slab Structure (AY 2026-27)

The Union Budget 2025, presented on February 1, 2025, made sweeping changes to the NTR, effective from AY 2026-27. The new structure is as follows:

Table 3: New Tax Regime — Revised Income Tax Slabs (AY 2026-27)

Income Slab (₹)	Tax Rate (%)	Remarks
Up to ₹4,00,000	Nil	Increased basic exemption from ₹3L
₹4,00,001 – ₹8,00,000	5%	—
₹8,00,001 – ₹12,00,000	10%	Section 87A rebate up to ₹60,000
₹12,00,001 – ₹16,00,000	15%	—
₹16,00,001 – ₹20,00,000	20%	—
₹20,00,001 – ₹24,00,000	25%	New bracket introduced
Above ₹24,00,000	30%	Surcharge applies above ₹50L

For AY 2026-27, the standard deduction under the NTR has been enhanced to ₹75,000 for salaried employees (up from ₹50,000). With the Section 87A rebate raised to ₹60,000, individuals earning up to ₹12 lakh gross income (₹12L minus ₹75,000 standard deduction = taxable income of ₹11.25L; tax computed = ₹60,000; fully offset by rebate) face zero net tax liability. This is the highest effective tax-free threshold in the history of Indian personal income taxation.

5. GRAPHICAL ANALYSIS AND INTERPRETATION

5.1 Figure 1: Tax Slab Rate Comparison — AY 2025-26

Figure 1 below presents a side-by-side bar chart comparison of tax slab rates under the Old Regime and the New Tax Regime for AY 2025-26. The NTR introduces two additional intermediate brackets (10% and 15%) compared to the Old Regime, providing a more graduated progression. Notably, the basic exemption limit under the NTR (₹3 lakh) is significantly higher than under the Old Regime (₹2.5 lakh).

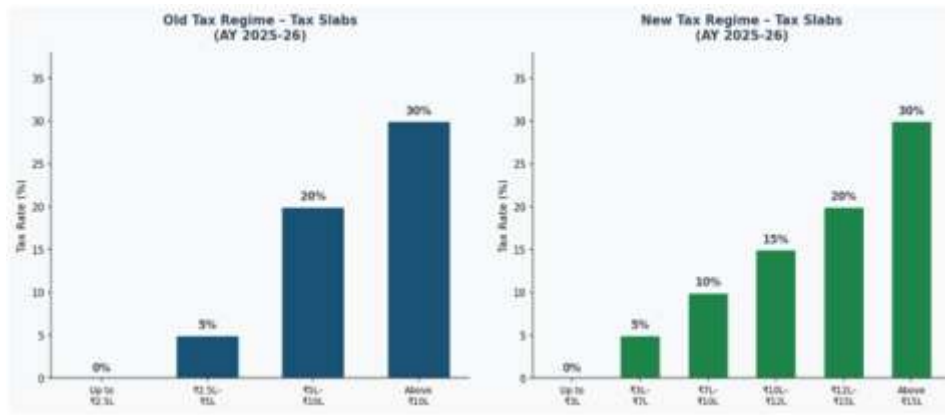


Figure 1: Tax Slab Rates — Old vs New Regime (AY 2025-26)

5.2 Figure 2: Tax Slab Rate Comparison — AY 2026-27

Figure 2 illustrates the revised New Tax Regime slabs for AY 2026-27 alongside the unchanged Old Regime slabs. The most notable features are the enhanced basic exemption of ₹4 lakh, the introduction of a new 25% bracket between ₹20-24 lakh, and the smoother progression through seven slabs instead of four under the Old Regime. This multi-bracket structure reduces marginal tax rate jumps, addressing a long-standing criticism of the Old Regime's steep jump from 5% to 20%.

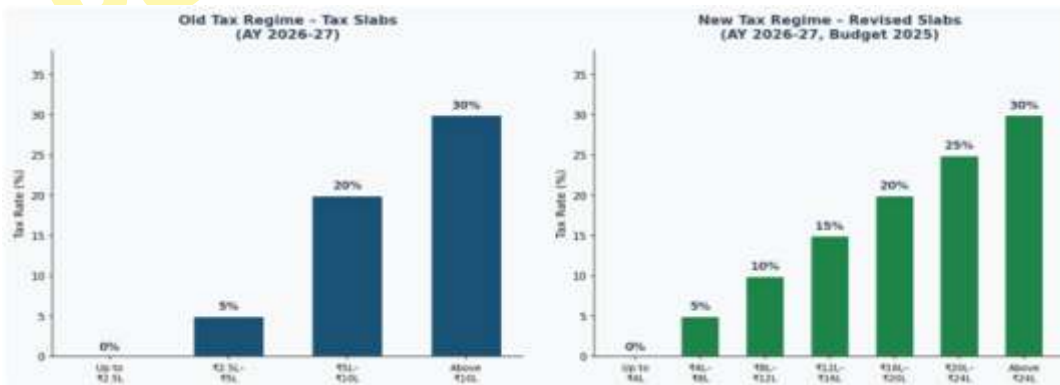


Figure 2: Tax Slab Rates — Old Regime vs Revised New Regime (AY 2026-27)

5.3 Figure 3: Tax Liability at Various Income Levels

Figure 3 compares the absolute tax liability (before cess) under three scenarios — Old Regime, New Regime AY 2025-26, and New Regime AY 2026-27 — for gross income levels from ₹5 lakh to ₹30 lakh. The Old Regime computations assume that the standard deduction of ₹50,000 is applied but no other deductions, to isolate the slab-level comparison.

The chart reveals that the New Regime for AY 2026-27 consistently produces the lowest tax liability at all income levels above ₹5 lakh when deductions beyond the standard deduction are not considered. The gap between the Old Regime and NTR 2026-27 widens significantly in the ₹10-20 lakh range, providing the strongest incentive for regime switching among middle-income earners.

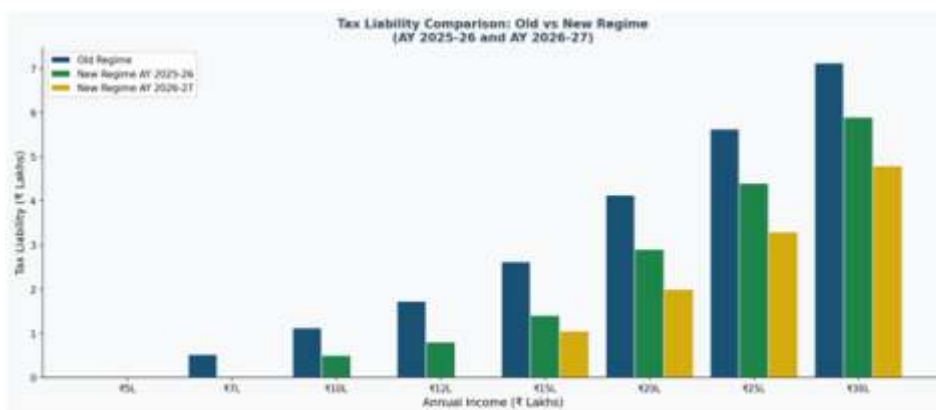


Figure 3: Absolute Tax Liability Comparison Across Income Levels

5.4 Figure 4: Key Deductions and Exemptions Comparison

Figure 4 illustrates the quantum of key deductions and exemptions available under the Old Regime compared to the New Regime across both assessment years. The chart underscores the fundamental trade-off — the NTR offers lower slab rates in exchange for forgoing deductions worth potentially ₹3-5 lakh annually for a well-planned taxpayer. The incremental standard deduction of ₹25,000 in AY 2026-27 under the NTR represents the only significant concession retained.

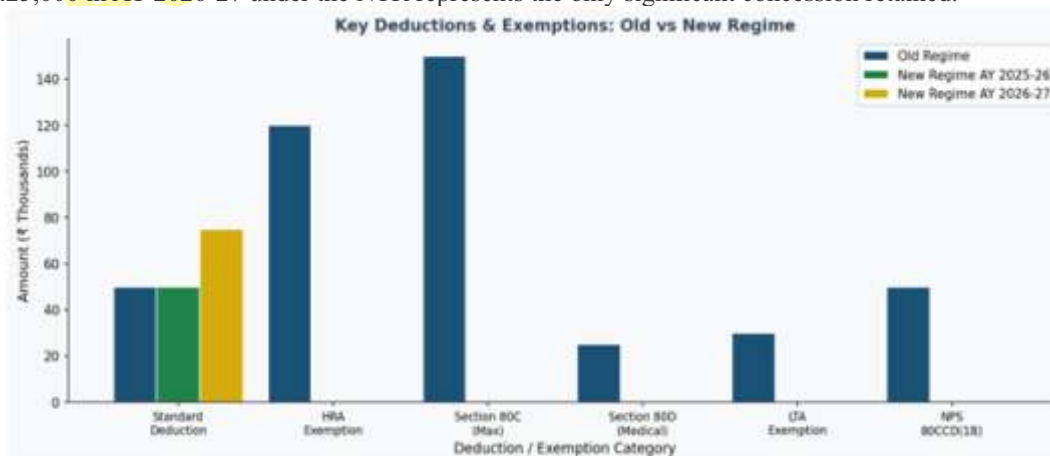


Figure 4: Key Deductions and Exemptions — Old Regime vs New Regime

5.5 Figure 5: Break-even Analysis

Figure 5 presents the break-even analysis — the income range where the NTR for AY 2026-27 produces lower tax than the Old Regime (assuming the Old Regime taxpayer claims ₹2 lakh total deductions including standard deduction and partial 80C investments). The shaded region indicates the relative advantage of each regime.

The analysis demonstrates that the NTR is superior across most income levels when the Old Regime taxpayer claims deductions below approximately ₹3.5 lakh. For taxpayers who maximise HRA (say ₹1.5L), home loan interest (₹2L), 80C (₹1.5L), and 80D (₹25,000), totalling approximately ₹5.25 lakh plus standard deduction, the Old Regime continues to provide a tax advantage in the ₹15-25 lakh income range.

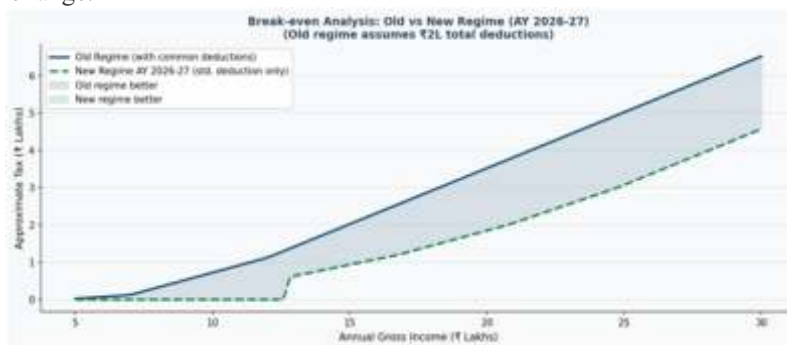


Figure 5: Break-even Analysis — Old Regime vs New Regime (AY 2026-27)

5.6 Figure 6: Section 87A Rebate Progression

Figure 6 depicts the significant enhancement in Section 87A rebate under the New Tax Regime across three consecutive assessment years. The rebate, which effectively eliminates tax liability for lower-income taxpayers, has been raised from ₹12,500 under the Old Regime to ₹60,000 under the NTR for AY 2026-27 — a 380% increase. This has been the single most powerful policy lever in expanding the effective tax-free income threshold under the NTR.

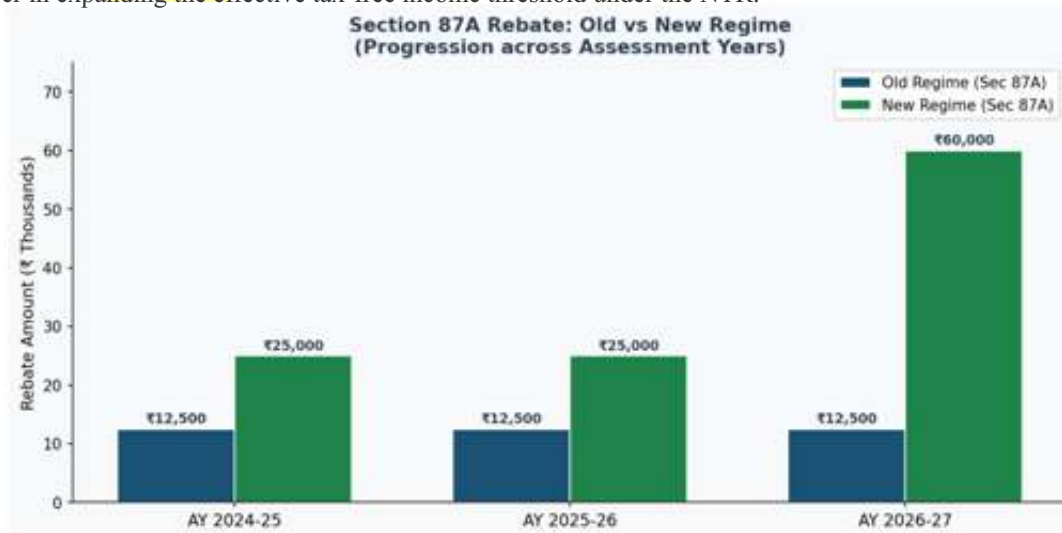


Figure 6: Section 87A Rebate — Old vs New Regime (AY 2024-25 to 2026-27)

6. COMPARATIVE ANALYSIS OF KEY PARAMETERS

6.1 Standard Deduction

Standard deduction is available under both regimes for salaried employees and pensioners. Under the Old Regime, it stands at ₹50,000 for both AY 2025-26 and AY 2026-27. Under the NTR, it was ₹50,000 for AY 2025-26 and has been enhanced to ₹75,000 for AY 2026-27. This enhancement further widens the tax-free threshold under the revised NTR and is a direct benefit for over 70 million salaried taxpayers in India.

6.2 Section 87A Rebate

Section 87A provides a rebate against computed tax liability. Under the Old Regime, the rebate is limited to ₹12,500, applicable where total income does not exceed ₹5 lakh — effectively making income up to ₹5 lakh tax-free. Under the NTR for AY 2025-26, the rebate is ₹25,000 (total income up to ₹7 lakh). For AY 2026-27, this is further enhanced to ₹60,000 (applicable where computed tax does not exceed ₹60,000), effectively covering taxable income up to approximately ₹12 lakh.

Table 4: Comprehensive Comparison — Old vs New Tax Regime

Parameter	Old Regime	NTR AY 2025 -26	NTR AY 2026 -27
Basic Exemption Limit	₹2.5 lakh	₹3 lakh	₹4 lakh
Standard Deduction	₹50,000	₹50,000	₹75,000
Section 87A Rebate	₹12,500 (up to ₹5L)	₹25,000 (up to ₹7L)	₹60,000 (up to ₹12L)
Effective Tax-Free Limit	₹5 lakh	₹7.5 lakh*	₹12.75 lakh*
HRA Exemption	Available	Not available	Not available
Section 80C (Max)	₹1.5 lakh	Not available	Not available
Section 80D (Medical)	₹25,000	Not available	Not available
Home Loan Interest (24b)	Up to ₹2 lakh	Not available	Not available
NPS 80CCD(1B)	₹50,000	Not available	Not available
Default Regime	No (opt-in)	Yes (from AY 24 -25)	Yes (continued)
Number of Tax Slabs	4	6	7

*Effective tax-free limit for salaried individuals after standard deduction and Section 87A rebate.

7. ILLUSTRATIVE TAX LIABILITY COMPUTATIONS

The following table presents detailed tax liability computations for a salaried individual below 60 years across selected income levels, before cess, under both regimes for AY 2026-27.

Table 5: Tax Liability Comparison (AY 2026-27) — Before Cess

Gross Income (₹)	Old Regime Tax (₹)	NTR AY 2026 -27 Tax (₹)	Savings in NTR (₹)
5,00,000	12,500	0 (Rebate)	12,500
7,00,000	42,500	0 (Rebate)	42,500
10,00,000	1,12,500	20,000	92,500
12,00,000	1,72,500	0 (Rebate)	1,72,500
15,00,000	2,62,500	1,05,000	1,57,500
20,00,000	4,12,500	2,30,000	1,82,500
25,00,000	5,62,500	3,80,000	1,82,500
30,00,000	7,12,500	5,30,000	1,82,500

Note: Old Regime tax computed without any deductions beyond standard deduction of ₹50,000. NTR tax includes standard deduction of ₹75,000. Section 87A rebate applied where applicable.

The computations in Table 5 demonstrate that even without any additional deductions in the Old Regime, the NTR for AY 2026-27 yields substantial tax savings across all income levels. The savings are particularly pronounced in the ₹10-15 lakh range.

8. FINDINGS AND DISCUSSION

Based on the foregoing analysis, the following key findings emerge:

Finding 1: NTR is now the default and superior regime for most salaried taxpayers

For AY 2026-27, the NTR offers zero tax liability up to ₹12.75 lakh for salaried employees (gross income minus ₹75,000 standard deduction = taxable income; rebate covers computed tax up to ₹60,000). This is a decisive shift. Under the Old Regime, the comparable effective tax-free threshold is only ₹5 lakh. Even accounting for maximum 80C and 80D deductions in the Old Regime, the NTR advantage persists for taxpayers with gross income below ₹15 lakh and deductions below ₹3.75 lakh.

Finding 2: The Old Regime remains beneficial for high-deduction taxpayers

For taxpayers who can claim HRA (significant in metro cities), home loan interest up to ₹2 lakh, full 80C investment of ₹1.5 lakh, 80D (medical insurance), and NPS contributions — totalling potentially ₹5-7 lakh in deductions — the Old Regime retains a meaningful advantage in the ₹15-30 lakh income range. The break-even deduction threshold (at which Old Regime equals NTR) for income of ₹20 lakh under AY 2026-27 is approximately ₹4.5-5 lakh.

Finding 3: Budget 2025 revisions represent a paradigm shift

The AY 2026-27 revisions — enhanced basic exemption to ₹4 lakh, seven-tier slab structure, ₹75,000 standard deduction, and ₹60,000 Section 87A rebate — collectively represent the most significant overhaul of personal income tax since the 1997 Budget. The revisions address most of the structural weaknesses identified in the early NTR iterations (AY 2021-22 through 2023-24).

Finding 4: Compliance simplification is a quantifiable benefit of the NTR

Beyond tax savings, the NTR eliminates the need to maintain documentation for 70+ exemptions and deductions, reducing compliance costs. For small taxpayers and those without access to CA services, this administrative simplification has intrinsic value. This aligns with the broader CBDT objective of increasing the taxpayer base and improving voluntary compliance.

Finding 5: The transition to NTR is accelerating

Administrative data from CBDT indicates that the share of NTR filers has grown from approximately 14% in AY 2022-23 to over 35% in AY 2024-25. The AY 2026-27 revisions are projected to raise this share to 60-70%, fundamentally altering the landscape of Indian personal income taxation.

9. CONCLUSION AND POLICY RECOMMENDATIONS

This paper has undertaken a comprehensive comparative analysis of the Old Tax Regime and the New Tax Regime under the Income Tax Act, 1961, with specific focus on AY 2025-26 and AY 2026-27. The study has demonstrated, through detailed slab analysis, tax liability modelling, graphical presentation, and literature review, that the New Tax Regime — particularly in its revised form for AY 2026-27 — offers substantial advantages to the majority of individual taxpayers, especially the salaried middle class.

The NTR's superior design is evidenced by: (a) a zero-tax threshold of ₹12.75 lakh for salaried employees; (b) lower marginal rates across all income brackets compared to the Old Regime; and (c) administrative simplicity that reduces compliance burden. However, high-income taxpayers with well-structured deduction portfolios — particularly those with significant HRA, home loan interest, and investment in life insurance and provident funds — may still prefer the Old Regime.

9.1 Recommendations for Taxpayers

Taxpayers earning below ₹12.75 lakh per annum should unconditionally opt for the NTR for AY 2026-27 onwards, as their tax liability is zero under this regime.

Taxpayers earning between ₹12.75 lakh and ₹20 lakh should conduct a break-even deduction analysis. If total deductions (excluding standard deduction) exceed approximately ₹4 lakh, the Old Regime may be preferable.

High-income taxpayers (above ₹20 lakh) should engage professional tax advisors for personalised regime analysis, accounting for specific deduction profiles.

9.2 Recommendations for Policymakers

The Income Tax Department should consider retaining at least the home loan interest deduction under the NTR (Section 24(b)) to accelerate the housing sector and make the NTR more broadly applicable.

A long-term roadmap for merging or phasing out the Old Regime should be announced to provide certainty to taxpayers and reduce the complexity of maintaining two parallel systems.

The CBDT should publish annual comparative tax calculators and guidance notes to assist unrepresented taxpayers in making optimal regime choices, promoting financial literacy.

In conclusion, the New Tax Regime under the Income Tax Act, 1961, has evolved from a marginal and often inferior alternative to a structurally superior framework for a large and growing majority of India's individual taxpayers. The revisions introduced in Budget 2025 mark a watershed in

Indian fiscal policy, and the results of this comparative study strongly recommend that most salaried taxpayers transition to the NTR for AY 2026-27 and beyond.

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