

Which Personal Tax Regime is More Beneficial Now? An In-depth Break-Even Point Analysis



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The Union Budget 2023, coined as the First Budget in Amrit Kal, containing the Blue-Print of India @ 100, has been laid out in the Parliament by our hon'ble FM Smt. Nirmala Sitharaman, today on 1.2.2023.

In the Personal Taxation domain, with a view to accomplish the objective of making the new personal taxation regime u/s 115BAC of the Income Tax Act, more popular among masses, a slew of amendments has been proposed in the Finance Bill 2023, presented by our hon'ble FM today, on 1.2.2023.

The compulsory requirement of foregoing of the plethora of otherwise available specified deductions by the individuals and HUFs opting for the new personal taxation regime u/s 115BAC of reduced personal tax slabs, introduced by the Finance Act 2020, has somewhat, made the said new regime unpopular and with a very few takers.

The Government wanted more and more individual taxpayers to switch to the new regime, to reduce the complexities in return filing and assessments arising out of the plethora of deduction claims of the assessee applicable in the old regime, and in order to do so, some significant amendments in the new personal tax regime u/s 115BAC, have been proposed in the Finance Bill 2023.

Increase in Basic Exemption Limit from Rs 2.5 lakhs to Rs. 3 lakhs & New Slab Rates:

The Basic Exemption Limit has been increased from Rs. 2.5 lakhs to Rs. 3 lakhs in New Personal Tax Regime u/s 115BAC. The new proposed slab rates in the new personal tax regime u/s 115BAC, are as under:

<i>Sl. No.</i>	<i>Total income</i>	<i>Rate of tax</i>
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
1.	UptoRs. 3,00,000	Nil
2.	FromRs. 3,00,001 toRs. 6,00,000	5percent.
3.	FromRs. 6,00,001to Rs.9,00,000	10percent.
4.	FromRs. 9,00,001 toRs. 12,00,000	15percent.
5.	FromRs. 12,00,001 toRs. 15,00,000	20percent.
6.	AboveRs. 15,00,000	30percent.

Increase in Limit of Rebate u/s 87A

Further, the available limit of rebate u/s 87A has been increased from Rs. 5 lakhs to Rs. 7 lakhs in the new personal tax regime u/s 115BAC. At the above newly prescribed slab rates, the new rebate limit u/s 87A comes out to be Rs. 25,000 on the exempt income of Rs 7 lakhs, as compared to existing rebate limit of Rs 12500 on the exempt income of Rs 5 lakhs.

It needs to be understood here that the above relief is in the form of a tax rebate u/s 87A only and not by way of an increase in the basic exemption limit in the personal tax slabs. The relief in the form of increase in the basic exemption limit in the personal tax slabs in the new regime is only amounting to Rs. 50,000 as the basic exemption limit has been increased from existing Rs. 2.5 lakh to Rs 3 lakh in the new personal tax regime.

Therefore, the individuals & HUFs opting for the new regime in FY 2023-24 and onwards, and having the gross total annual income of upto Rs 7 lakhs, will not be required to pay any income tax.

However, if the income of an individual or an HUF is in excess of Rs. 7 lakhs, even by say a thousand rupees, then rebate u/s 87A will not be available and the above tabulated newly prescribed tax rates will be applicable on such income.

Allowability of Standard Deduction & Family Pension Deduction in New Regime

Another very significant and welcome relief which has been proposed in the Finance Bill 2023 is the allowability of Standard Deduction u/s 16(ia) and the deduction in respect of family pension u/s 57(ia), if applicable, to the salaried individuals, in the new personal tax regime u/s 115BAC(1A) of the Act.

In my pre-budget article published by Taxmann with the citation [2023] 146 taxmann.com 527 (Article), I have recommended the allowability of standard deduction u/s 16 in the new personal tax regime, and it is feeling of great satisfaction, that the said recommendation has now become the part of the Finance Bill 2023.

It is also imperative to note here that the above-mentioned reliefs of increase in the basic exemption limit, increase in the rebate limit u/s 87A have been prescribed only for the new tax regime u/s 115BAC and not in the old personal tax regime of higher tax rates with availability of specified deductions.

New Regime to be the New Default Tax Regime

Further, another very significant amendment which has been proposed in section [115BAC](#) is that unlike the existing scenario, wherein the old regime is the by-default regime and the taxpayer has to opt for the new regime, by filing an online declaration, now this new regime has been made a by-default tax regime.

The individuals or HUF who wish to continue with the old regime will now be required to opt for the old regime u/s 115BAC(6) of the Act, by filing an online declaration in the prescribed form, on or before the due date of filing of original return u/s 139(1) of the Act,

In case of a person having income from business or profession, such option of continuing with the old regime u/s 115BAC(6), once exercised shall apply to subsequent assessment years as well.

All the above discussed amendments will take effect from FY 2023-24, and will, accordingly, apply in relation to AY 2024-25 and subsequent assessment years.

So, all in all, a complete 360 degree turn around in the status of these two parallel personal taxation regimes, vis-à-vis the existing legislative provisions, obviously with the objective of incentivizing the adoption of new personal tax regime.

Which Regime is more Beneficial Now?

In the wake of the above discussed proposed Budget 2023 amendments in the Finance Bill 2023, a very natural and critical question, which comes in every enlightened mind is, 'Which Regime is more beneficial now?' and the million-dollar answer to this practically relevant question, has been given in the ensuing paras.

For individuals and HUFs having a gross annual total income of upto Rs 7 lakhs in FY 2023-24 and onwards, the choice of the exercise of now by-default new regime u/s 115BAC and claiming the rebate of Rs 25,000/- u/s 87A is crystal clear and beyond any doubt, as the old regime only provides for the rebate exemption limit of Rs 12,500 upto the total income of Rs 5 lakhs only.

Now, for the individuals and HUFs having a gross annual total income in excess of Rs 7 lakhs in FY 2023-24 and onwards, a well-informed and considered choice has to be made, and in making such choice, my undermentioned analysis will definitely help.

Firstly, the comparison between the tax slab rates in the two personal tax regimes is tabulated as under, for ready reference of all.

Total Income (Rs)	New Regime (Section 115BAC) Proposed Tax Rate in Finance Bill 2023 (%)	Old Regime (with Deductions) Tax Rate (%)
Up to 2,50,000	Nil	Nil
From 2,50,001 to 3,00,000	Nil	5
From 3,00,001 to 6,00,000	5	5
From 6,00,001 to 9,00,000	10	20
From 9,00,001 to 10,00,000	15	20
From 10,00,001 to 12,00,000	15	30
From 12,00,001 to 15,00,000	20	30
Above 15,00,000	30	30

Clearly, in terms of tax slab rates, the new regime u/s 115BAC is the Winner. However, the crucial factor of non-availability of various specified deductions like 80C/80CCC/80CCD/80D/80TA/24(b) etc. in the new regime, is also required to be considered and taken into account in making a well-informed and pragmatic decision, in order to optimise one's tax outflows.

Therefore, with a view to simplify this complication, a comprehensive '**BREAK-EVEN POINT ANALYSIS**', has been done in ensuing paragraphs, so as to guide and assist the worthy readers, in making good and informative choice and decision of opting for their most optimum tax regimes.

Break- Even Point Analysis between New & Old Personal Tax Regime

Income in INR	Less: Standard Deduction in INR	Net Income in INR	Tax Liability as per New Regime	Additional Deductions (over & above standard deduction) required in Old Regime for Break Even	When will New Personal Tax Regime will be More Beneficial?
700000	50,000	65,0000	0	1,50,000	At an income level of Rs 7 lakh and less, an individual will benefit only in new regime.
800000	50,000	7,50,000	35,000	1,38,500	At an income level of Rs 8 lakh, an individual will benefit in new regime if the available deductions (other than standard deduction) are less than Rs. 1,38,500

9,00,000	50,000	8,50,000	40,000	2,12,500	At an income level of Rs 9 lakh, an individual will benefit in new regime if the available deductions (other than standard deduction) are less than Rs. 2,12,500
10,00,000	50,000	9,50,000	52,500	2,50,000	At an income level of Rs 10 lakh, an individual will benefit in new regime if the available deductions (other than standard deduction) are less than Rs. 2,50,000
12,50,000	50,000	12,00,000	90,000	3,12,500	At an income level of Rs 15 lakh, an individual will benefit in new regime if the available deductions (other than standard deduction) are less than Rs. 3,12,500
15,00,000	50,000	14,50,000	1,40,000	3,58,000	At an income level of Rs 15 lakh, an individual will benefit in new regime if the available deductions (other than standard deduction) are less than Rs. 3,58,000
15,50,000	50,000	15,00,000	1,50,000	3,75,000	At an income level greater than Rs 15 lakh, an individual will benefit in new regime if the available deductions (other than standard deduction) are less than Rs. 3,75,000
16,00,000	50,000	15,50,000	1,65,000	3,75,000	At an income level greater than Rs 15 lakh, an individual will benefit in new regime if the available deductions (other than standard deduction) are less than Rs. 3,75,000

Concluding Remarks

In the preceding paragraphs, an honest and sincere attempt has been made to work out and analyse all the possible permutations and combinations of income levels of an individual and HUF assessee and the specified deductions, available to him, and a break-even point, between the old regime and the new regime of personal tax, in all the income levels, in terms of the availability of specified deductions, has been worked out.

Thus, these detailed computations will surely serve as a ready referencer for all the individual/HUF assessees and the tax professionals, to make informed and most appropriate choices of their tax structures in order to optimise their taxes.

Based on the above Break-Even Point Analysis, clearly, our hon'ble FM has succeeded in making the New Personal Taxation Regime u/s 115BAC more attractive and beneficial for the individuals & HUFs vis-à-vis the old regime and for the upcoming FY 2023-24, this new regime is definitely going to be a hit among the masses, as no body will wish to block their hard earned income for non-commensurate tax benefits, in the current scheme of the things.

