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Old vs. New Tax Regime- An Explainer on Making an Informed Choice

With a view to rationalize the personal tax slabs and simplify the complex maze of plethora of deduction claims of individuals and HUFs in their income tax returns, the Government has introduced a new regime of personal tax, by introducing a new section 115BAC w.e.f. FY 2020-21 and onwards.

However, the compulsory requirement of foregoing of so many otherwise available deductions like standard deduction, 80C investments in LIC, PF, FDs, home loan Repayment, interest on home loan, 80D Mediclaim, HRA etc., has made this new regime very less popular and with few takers only.

The Govt. wants 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 taxpayers, applicable in the old regime, so with a view to making the new regime more popular among the taxpayers, a host of amendments have been announced in the Union Budget 2023-24.

Proposed Amendments in New Regime

The basic exemption limit has been increased from Rs 2.5 lakhs to Rs 3 lakhs in the new regime. The tax slabs in new regime have also been relaxed a bit now and these new relaxed slab rates are: upto 3,00,000 – Nil Tax; 3,00,001 to 6,00,000 – 5%; 6,00,001 to 9,00,000 – 10%; 9,00,001 to 12,00,000 – 15%; 12,00,001 to 15,00,000 – 20% and above 15,00,000 – 30%.

The available limit of rebate u/s 87A has also been increased from Rs. 5 lakhs to Rs. 7 lakhs in the new personal regime. 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.

Thus, the individuals and 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.

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.

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(iia), if applicable, to the salaried individuals, in the new personal tax regime u/s 115BAC(1A) of the Act.

The existing Surcharge Rate for HNIs earning annual incomes in excess of Rs 5 crores, has been reduced from the existing 37% to 25%, in the new personal tax regime u/s 115BAC. As such, the effective tax rate for such HNIs will reduce substantially from the existing rate of 42.74% to 39%, in the new regime.

New vs Old- How to Make an Informed Choice? For individuals and HUFs having taxable annual incomes of upto Rs 7 lakhs and above Rs 5 crores, respectively, the choice of going in for the new regime is very clear.

However, for those earning in between 7 lakhs to 5 crores, as per the numbers arrived at based on the break-even point analysis, all individuals having their annual taxable incomes above Rs 15 lakhs should consider continuing with the old regime, only, if their available deductions, other than standard deduction of Rs 50,000 u/s 16, viz. deductions available u/s 80C/80D/24(b)/HRA etc., exceeds Rs 3,75,000 in a year. But, if such available deductions are equal to or less than Rs 3,75,000 in a year, or if they don't want to block their disposable funds in making such investments of Rs 3,75,000, then they should definitely switch to the new regime to reduce their income tax liability.

Those individuals earning an annual income of Rs 10,00,000 should consider continuing with the old regime only, if their available deductions other than standard deduction viz. deductions available u/s 80C/80D/24(b)/HRA etc., exceed Rs 2,50,000 in a year, otherwise they should switch to the new regime.

Also, for individuals earning annual income of Rs 12,50,000, the break-even figure of available deductions other than standard deduction comes out at Rs. 3,12,500 and for annual income of Rs 15,00,000 this figure of deduction, other than standard deduction, works out at Rs. 3,58,000.

For ready reference, the figures of available deductions which are required to be claimed in the old regime to break-even with the tax liability in the new regime is tabulated below:

Income Levels	**Deduction Amount (Including Standard Deduction in case of Salaried Individuals) Needed in Old Regime to Break Even with Tax Liability in New Regime**
Upto 5,00,000	Nil Tax under both regimes
6,00,000	1,00,000
7,00,000	2,00,000
8,00,000	2,12,500
9,00,000	2,62,500
10,00,000	3,00,000
11,00,000	3,25,000
12,00,000	3,50,000
13,00,000	3,62,500
14,00,000	3,75,000
15,00,000	4,08,333
Above 15,00,000 upto 5,00,00,000	4,25,000

One more important observation. In the Budget, the double deduction in respect of home loan principal repayments and interest first u/s 80C/24(b) and subsequently again as cost of acquisition u/s 48, while computing capital gains on sale of such house property, has been plugged and prohibited.

So, as a natural corollary, if one's home loans' principal and interest EMIs constitute a sizeable chunk of available deductions, and if one intends to sell-off the house in future, then one may also consider forgoing the deduction in respect of home loan principal repayments u/s 80C and interest u/s 24(b) presently, and conveniently opt for the new regime, as one can claim the same as cost of acquisition or cost of improvement in respect of such house property in computing the capital gains, at the time of its sale. Even the benefit of indexation may also be availed on such amounts then.

What needs to be done to opt for the New Regime?

Well, nothing needs to be done, as for the coming FY 2023-24, this new regime u/s 115BAC has been made the 'by-default tax regime' for all individuals and HUFs. Now only those who wish to opt for the old regular regime need to file an electronic declaration for opting the old regime, before filing of their returns.

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