

Which is Better: New or Old Tax Regime for Individuals?

Individuals and several other assesseees are eligible to opt for New Tax Regime (NTR) which largely does not permit exemptions/ deductions (except few). Whereas Old Tax Regime (OTR) permitted several deductions.

Finance Act 2023 has made NTR as default tax regime. This has necessitated certain clarifications as to the modalities which are required to be observed and consequent issues which may arise which are briefly listed hereunder:

- An assessee may opt out of NTR.
- An assessee who does not have business income can CHOOSE the beneficial regime every year.
- An employer is required to obtain declaration from an employee as to the intended tax regime for the financial year. On receipt of such intimation, employer shall deduct TDS based on the intended tax regime. (Thus, employee might have opted for NTR or other regime at the time of deduction of TDS from Salaries)
- Employee has to still indicate choice of the regime at the time of filing of the Return of Income (i.e. Intimation to the employer is for the limited purpose of TDS from salaries). In other words, even if the employer has deducted TDS as per NTR, **the employee at the time of filing his/ her ITR can choose old regime if that is beneficial.**

Slab Rates under OTR vs NTR

| Income under OTR (Amount in Rupees) | Tax Rate | Income under NTR (Amount in Rupees) | Tax Rate |
|--|----------|--|----------|
| Upto 2,50,000 | Nil | Upto 3,00,000 | Nil |
| 2,50,001 to 5,00,000 | 5% | 3,00,001 to 6,00,000 | 5% |
| 5,00,001 to 10,00,000 | 20% | 6,00,001 to 9,00,000 | 10% |
| Above 10,00,000 | 30% | 9,00,001 to 12,00,000 | 15% |
| | | 12,00,001 to 15,00,000 | 20% |
| | | Above 15,00,000 | 30% |

Note: One may note that misleading information related to new tax regime was spread on social media platform indicating changes in New Tax Regime. CBDT has clarified vide press release dated 1st April 2024 that "There is no new change which is coming in from 1-4-2024."

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For List of deductions/ exemptions available under both the regimes please refer below.

| Particulars | Old Tax Regime | New Tax Regime (From 1st April 2023) | Remarks |
|--|----------------|--------------------------------------|--|
| Income level (for Rebate u/s 87A) | ₹ 5 lakhs | ₹ 7 lakhs | |
| Rebate u/s 87A | ₹ 12,500 | ₹ 25,000 | Or tax amount whichever is lower |
| Marginal Relief under rebate | x | ✓ | Relief of amount of tax less amount exceeding Rs.7 Lakhs |
| Standard Deduction (Rs.50,000) | ✓ | ✓ | From salary income |
| HRA Exemption | ✓ | x | |
| Leave Travel Allowance (LTA) | ✓ | x | |
| Other allowances (including food allowance) | ✓ | x | |
| Entertainment Allowance and Professional Tax | ✓ | x | |
| Perquisites for official purposes | ✓ | ✓ | |
| Interest on Home Loan u/s 24b (Self-occupied property) | ✓ | x | Upto Rs.2,00,000 under old regime |
| Interest on Home Loan u/s 24b (Let-out property) | ✓ | ✓ | |
| Intra-head Set-off of loss from House Property | ✓ | x | |
| Deductions – 80C | ✓ | x | |
| Employee's contribution to NPS | ✓ | x | |
| Employer's contribution to NPS | ✓ | ✓ | |
| Medical Insurance – 80D | ✓ | x | |

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| Particulars | Old Tax Regime | New Tax Regime (From 1st April 2023) | Remarks |
|--|----------------|--------------------------------------|---|
| Disabled Individual – 80U | ✓ | x | |
| Donation to Political Party / Trust – 80G | ✓ | x | |
| Interest on Education loan – 80E | ✓ | x | |
| Interest on Electric Vehicle loan – 80EEB | ✓ | x | |
| Savings Bank Interest – 80TTA / 80TTB | ✓ | x | |
| Deduction on Family Pension Income | ✓ | ✓ | |
| Other Chapter VI-A deductions | ✓ | x | |
| Contribution from Central Government to Agniveer Corpus Fund – 80CCH | ✓ | ✓ | Contribution received from assessee is not allowed as deduction |
| Deduction for new employees u/s 80JJAA | ✓ | ✓ | |
| Transport Allowance for a specially-abled person | ✓ | ✓ | |
| Gifts upto Rs 50,000 | ✓ | ✓ | |
| Daily Allowance (if consumed) | ✓ | ✓ | |
| Exemption on voluntary Retirement 10(10C) | ✓ | ✓ | |
| Exemption on Gratuity u/s 10(10) | ✓ | ✓ | |
| Exemption on Leave encashment u/s 10(10AA) | ✓ | ✓ | |
| Conveyance Allowance | ✓ | ✓ | |
| Deduction for Minor's clubbed income | ✓ | x | |
| Deduction u/s 10AA for SEZ | ✓ | x | |

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Illustrative table explaining tax payable under both the regimes for FY 2023-24 (AY 2024-25) before claiming deductions and exemptions:

| Total Income* (Rs) | Tax under OTR (Rs) | Tax under NTR (Rs) | Tax savings under NTR (Rs) | If deductions are exceeding below mentioned amount OTR will be beneficial (Rs) |
|--------------------|--------------------|--------------------|----------------------------|--|
| 7,50,000 | 65,000 | 31,200 | 33,800 | 1,62,500 |
| 9,50,000 | 1,06,600 | 54,600 | 52,000 | 2,50,000 |
| 12,00,000 | 1,79,400 | 93,600 | 85,800 | 3,12,500 |
| 15,00,000 | 2,73,000 | 1,56,000 | 1,17,000 | 3,75,000 |
| 17,50,000 | 3,51,000 | 2,34,000 | 1,17,000 | 3,75,000 |

* It is assumed that "Salary" is a part of total income, which is arrived after deducting the standard deduction allowed under both the old and new regimes.

CONCLUSION:

One needs to opt for the tax regime depending upon facts of each case. One needs to compare tax payable under both regimes and make / alter a choice if permitted at the time of filing the Return of Income.

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