

## A Comprehensive Study of New Tax Regime on Salaried Persons in Jaipur

**\*Dr. Jyoti Khurana**

### Abstract

In the era of economic slowdown the finance minister Nirmala Sitharaman presented her second union budget on 1<sup>st</sup> February 2020. In this budget she introduced a new tax regime, where salaried taxpayer can choose any option out of either old tax regime or new tax regime. If tax payer selects old tax regime he/she can avail all tax exemptions and deductions which was availed by him/her in previous year 2019-20 or before, but if he/she selects new tax regime he/she has to forgone about 70 exemptions and deductions. The basic object of this research is to compare the old tax regime and new tax regime. This study will help the taxpayer to select the old or new tax regime on the basis of their investments and earnings

**Key words:** - New tax regime, Old tax regime, Deductions

### Introduction

The vital source of revenue of government is taxation. Government collects revenue from tax and non-tax sources. Tax sources include income tax, corporate tax, custom duty, union exercise duty and goods& service tax. Non tax sources include non-debt capital receipts, non-tax revenue, borrowings and receipt from other liabilities. Taxation is known as mandatory charge. Direct and indirect taxes are two different sources of tax in Indian taxation system. Direct tax is progressive in nature whereas indirect tax is proportionate in nature. In direct tax incidence of tax and impact of tax lies on the same person whereas indirect tax can be collect from other persons i.e. costumers. Direct tax can't be evaded because it is a compulsory charge. The paying ability of a person is base of direct tax. It bears low cost of collection because direct tax mostly collected at a source.

### Object of Study

- To understand the impact of new tax regime on salaried persons
- To compare the old and new tax regime
- To provide a guideline to the taxpayer
- To evaluate the merit and demerit of both tax regimes as per their investments and earnings

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### Old Tax Regime

It is the tax scheme which was applicable up to assessment year 2020-21 for income of previous year 2019-20. In this scheme the rates of tax is divided into three age groups which are given in following table:-

Age less than 60 years		Age more than 60 years but less than 80 years		Age more than 80 years	
Total Taxable Income	Rate of Tax	Total Taxable Income	Rate of tax	Total Taxable Income	Rate of Tax
First 250000	0%	First 300000	0%	First 500000	0%
250000 to 500000	5%	300000 to 500000	5%	500000 to 1000000	20%
500000 to 1000000	20%	500000 to 1000000	20%	More than 1000000	30%
More than 1000000	30%	More than 1000000	30%		

### Major Exemptions and deductions which can be availed in old tax regime

Some exemptions and deductions for tax purpose in old tax regime:-

#### (1) Section 10

1. **Clause 5 leave travel concession:** - Exemption for leave travel concession is allowed for 2 journeys by employee in the block of 4 years as per norms of this clause. At present ninth block is going on which has been started from 1 January 2018
2. **Clause 13A House rent allowance:-** If the employee resides in rented house property and paying a rent in excess of 10% of basic salary dearness allowance (in the terms of employment) and commission on sales, then a exemption is allowed as per rules of this clause.
3. **Clause 14 partly Exempted allowances:-** Exemptions is allowed up to limit mentioned in this clause.
4. **Clause 32 Income of minor child :-** If income of minor child is included in the income of individual assessee an exemption of Rs. 1500 is allowed as per rules of this clause

#### (2) Deductions from gross income from salary:-

1. Section 16 (i) standard deduction of Rs. 50000
2. Section 16 (ii) Deduction for entertainment allowance to government employees
3. Section 16 (iii) Deduction for employment/professional tax paid

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- (3) **Section 24:- Interest on housing loan:-** If loan is taken for construction or purchase of house property and this house property is self-occupied by the assessee then a deduction is allowed upto limit mentioned in this section. If house property is rented then the deduction is allowed equal to interest paid.
- (4) **Section 71(1) loss from house property :-** It can be set off from any other head of income up to Rs. 200000 and remaining loss will be carried forward to next year.
- (5) **Chapter VI A Deductions :-** Deductions related to income and expenses are allowed as per rules of this chapter from gross total income.

**New Tax Regime** In the budget 2020, the finance minister Nirmala Sitharaman has introduced a new tax regime which is applicable as an option for salaried persons from assessment year 2021-22 and income of previous year 2020-21 at following rates:-

Total Taxable Income	Rate of Tax
First 250000	0%
250000 to 500000	5%
500000 to 750000	10%
750000 to 1000000	15%
1000000 to 1250000	20%
1250000 to 1500000	25%
More than 1500000	30%

As per budget if an individual has no business income, option can be exercised every year. If tax payer wants to pay tax as per new tax regime he can't avail exemptions and deductions and also can't set off any loss and can't avail any exemptions or deductions for allowance and perquisites. Tax payer has to submit his return under 139(1) of act on or before due date.

#### Major exemptions and deductions which can't avail in new tax regime

##### (1) Section 10

- 1 Clause 5 Leave travel concession
- 2 Clause 13A House rent allowance
- 3 Clause 14 except the following allowances no exemption can be claimed
  - (a) Transport allowance to a handicapped person
  - (b) Conveyance allowance to perform duty
  - (c) Any allowance granted to meet the cost of travel or transfer
  - (d) Daily allowance to meet the daily charges incurred by employee on account of absence from normal place of duty
- 4 Clause 32 Allowance for income of minor son

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- (2) Section 16ia standard deduction
- (3) Section 16 ii deduction for entertainment allowance
- (4) Section 16 iii deduction for employment and professional tax
- (5) Section 24 interest on loan in respect of self-occupied house property
- (6) Loss under the head of income from house property can't be set off from any other head of income but it can be carried forward for next year
- (7) Chapter VI A All deduction from 80C to 80U will not be allowed except 80CCD (2) Employer's contribution to new pension can be claimed

### Comparative Evaluation of both the Regime

For the purpose of comparative analysis assessment year 2020-21 for old regime and 2021-22 for new regime is taken into consideration. Taxpayer whose age is less than 60 years is taken for analysis. Maximum major deductions and exemptions which are used for research under old regime for assessment year 2020-21 is given below

**Standard Deduction:** - 50000 Deduction for Investment: - 80 C: - 150000

80 D: - for self-25000 and for parents 25000

80 E: - up to interest paid on education loan

### Note

All deductions and exemptions that given in table1 are not allowed under new tax regime of budget 2020.

### Data Analysis

The following table shows that various taxpayers earn same amount as income but their investments are different, so they are availing different deductions and exemptions and they are paying different amount of tax.

**Table: 1 Tax Under old Regime**

	Case: 1	Case: 2	Case: 3	Case: 4	Case: 5	Case: 6
<b>Gross Total Income</b>	650000	650000	650000	650000	650000	650000
<b>Less Deductions</b>	50000	60000	70000	75000	100000	125000
<b>Total Taxable Income</b>	600000	590000	580000	575000	550000	525000
<b>Tax</b>	33800	31720	29640	28600	23400	18200

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**Tax under new regime: - 28600**

The above table reveals that if a person is earning Rs. 650000 and getting the deduction of Rs. 75000, then tax under the both regimes will be same. If he/she is availing the deductions less than Rs. 75000, then new regime will be beneficial for the taxpayer. On the other hand, if taxpayer is availing the deductions more than Rs. 75000 then old regime will be beneficial for the taxpayer.

**Table: 2 Tax under old regime**

	Case: 1	Case: 2	Case: 3	Case: 4	Case: 5	Case: 6
<b>Gross Total income</b>	750000	750000	750000	750000	750000	750000
<b>Less Deductions</b>	50000	80000	100000	125000	150000	200000
<b>Total Taxable Income</b>	700000	670000	650000	625000	600000	550000
<b>Tax</b>	54600	48360	44200	39000	33800	23400

**Tax under new regime: - 39000**

The above table reveals that if a person is earning Rs. 750000 and getting the deduction of Rs. 125000, then tax under the both regimes will be same. If he/she is availing the deductions less than Rs. 125000, then new regime will be beneficial for the taxpayer. On the other hand, if taxpayer is availing the deductions more than Rs. 125000 then old regime will be beneficial for the taxpayer.

**Table: 3 Tax under old regime**

	Case: 1	Case: 2	Case: 3	Case: 4	Case: 5	Case: 6
<b>Gross Total income</b>	850000	850000	850000	850000	850000	850000
<b>Less deductions</b>	50000	75000	100000	150000	175000	200000
<b>Total taxable income</b>	800000	775000	750000	700000	675000	650000
<b>Tax</b>	75400	70200	65000	54600	49400	44200

**Tax under new regime: - 54600**

The above table reveals that if a person is earning Rs. 850000 and getting the deduction of Rs. 150000, then tax under the both regimes will be same. If he/she is availing the deductions less than Rs. 150000, then new regime will be beneficial for the taxpayer. On the other hand, if taxpayer is availing the deductions more than Rs. 150000 then old regime will be beneficial for the taxpayer.

**Table: 4 Tax under old regime**

	Case: 1	Case: 2	Case: 3	Case: 4	Case: 5	Case: 6
<b>Gross Total income</b>	950000	950000	950000	950000	950000	950000
<b>Less deductions</b>	50000	150000	160000	175000	200000	250000
<b>Total taxable income</b>	900000	800000	790000	775000	750000	700000
<b>Tax</b>	96200	75400	73320	70200	65000	54600

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**Tax under new regime: - 70200**

The above table reveals that if a person is earning Rs. 950000 and getting the deduction of Rs.175000, then tax under the both regimes will be same. If he/she is availing the deductions less than Rs.175000, then new regime will be beneficial for the taxpayer. On the other hand, if taxpayer is availing the deductions more than Rs.175000 then old regime will be beneficial for the taxpayer.

**Table: 5 Tax under old regime**

	Case: 1	Case: 2	Case: 3	Case: 4	Case: 5	Case: 6
<b>Gross Total income</b>	1000000	1000000	1000000	1000000	1000000	1000000
<b>Less deductions</b>	50000	100000	150000	187500	200000	250000
<b>Total taxable income</b>	950000	900000	850000	812500	800000	750000
<b>Tax</b>	100600	96200	85800	78000	75400	65000

**Tax under new regime: - 78000**

The above table reveals that if a person is earning Rs.1000000 and getting the deduction of Rs.187500, then tax under the both regimes will be same. If he/she is availing the deductions less than Rs.187500, then new regime will be beneficial for the taxpayer. On the other hand, if taxpayer is availing the deductions more than Rs. 187500 then old regime will be beneficial for the taxpayer.

**Table: 6 Tax under old regime**

	Case: 1	Case: 2	Case: 3	Case: 4	Case: 5	Case: 6
<b>Gross Total income</b>	1100000	1100000	1100000	1100000	1100000	1100000
<b>Less deductions</b>	50000	100000	150000	187500	200000	250000
<b>Total taxable income</b>	1050000	1000000	950000	912500	900000	850000
<b>Tax</b>	132600	117000	100600	98800	96200	85800

**Tax under new regime: - 98800**

The above table reveals that if a person is earning Rs. 1100000 and getting the deduction of Rs.187500, then tax under the both regimes will be same. If he/she is availing the deductions less than Rs.187500, then new regime will be beneficial for the taxpayer. On the other hand, if taxpayer is availing the deductions more than Rs. 187500 then old regime will be beneficial for the taxpayer.

**Table: 7 Tax under old regime**

	Case: 1	Case: 2	Case: 3	Case: 4	Case: 5	Case: 6
<b>Gross Total income</b>	1250000	1250000	1250000	1250000	1250000	1250000
<b>Less deductions</b>	50000	150000	200000	208350	215000	250000
<b>Total taxable income</b>	1200000	1100000	1050000	1041650	1035000	1000000
<b>Tax</b>	172500	148200	132600	130000	124280	117000

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**Tax under new regime: - 130000**

The above table reveals that if a person is earning Rs.1250000 and getting the deduction of Rs. 208350, then tax under the both regimes will be same. If he/she is availing the deductions less than Rs. 208350, then new regime will be beneficial for the taxpayer. On the other hand, if taxpayer is availing the deductions more than Rs.208350 then old regime will be beneficial for the taxpayer.

**Table: 8 Tax under old regime**

	Case: 1	Case: 2	Case: 3	Case: 4	Case: 5	Case: 6
<b>Gross Total income</b>	1350000	1350000	1350000	1350000	1350000	1350000
<b>Less deductions</b>	50000	150000	200000	225000	250000	300000
<b>Total taxable income</b>	1300000	1200000	1150000	1125000	1100000	1050000
<b>Tax</b>	210600	172500	163800	156000	148200	132600

**Tax under new regime: - 156000**

The above table reveals that if a person is earning Rs.1350000 and getting the deduction of Rs. 225000, then tax under the both regimes will be same. If he/she is availing the deductions less than Rs.225000, then new regime will be beneficial for the taxpayer. On the other hand, if taxpayer is availing the deductions more than Rs. 225000 then old regime will be beneficial for the taxpayer.

**Table: 9 Tax under old regime**

	Case: 1	Case: 2	Case: 3	Case: 4	Case: 5	Case: 6
<b>Gross Total income</b>	1500000	1500000	1500000	1500000	1500000	1500000
<b>Less deductions</b>	50000	100000	150000	250000	275000	300000
<b>Total taxable income</b>	1450000	1400000	1350000	1250000	1225000	1200000
<b>Tax</b>	257400	241800	226200	195000	187200	172500

**Tax under new regime: - 195000**

The above table reveals that if a person is earning Rs.1500000 and getting the deduction of Rs. 250000, then tax under the both regimes will be same. If he/she is availing the deductions less than Rs.250000, then new regime will be beneficial for the taxpayer. On the other hand, if taxpayer is availing the deductions more than Rs. 250000 then old regime will be beneficial for the taxpayer.

### **Findings and suggestions**

The budget 2020, which is presented by finance minister with an objective to move towards a regime

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where tax rates will be lower than the rates prevailing today, will be a first step towards a innovative change. The taxpayer has an option to select either new or old regime whichever is beneficial for them. In the following table a break even amount of deduction and exemption is given, where the tax under old regime and tax under new regime is equal

Total Income	Break Even Amount	Tax Under New Tax Regime	Tax Under Old Tax Regime
650000	75000	28600	28600
750000	125000	39000	39000
850000	150000	54600	54600
950000	175000	70200	70200
1000000	187500	78000	78000
1100000	187500	98800	98800
1250000	208350	130000	130000
1350000	225000	156000	156000
1500000	250000	195000	195000

Above table reveals that if a taxpayer is availing above mentioned deductions then the tax under both regimes will be equal. If he/she is avails the deduction below the break even amount then the new regime is beneficial, on the other hand if he/she avails the deduction above the break even amount then the old regime is beneficial for the taxpayer. To select the option of new or old regime tax planning will be an essential and important part. Tax planning will have to be done from starting of the previous year as soon as the financial earnings start.

First time tax payer can choose the lower tax liability but in long run financial benefits will be compared to tax liability. A person can shift to new tax regime even if tax liability is increased when his return from investment in future is more than the increment in tax from new tax regime as compared to old tax regime. Another reason to opt the new tax regime is an income tax return. In new tax regime filling the return will be quite simple as compared to old tax regime .According to Finance Act 2020 new tax regime is a flexible scheme. If a taxpayer has no business income, he can compare his tax liability every year and can select which regime is beneficial suggestively.

### Conclusion

In this research, the researcher has made an attempt through the research to study and understand the both tax regime which is more beneficial for a taxpayer. The researcher also made an effort to compare and evaluate the tax on the basis of earnings and investments of the taxpayer. A thorough analysis has been done on the different deductions and exemptions availing by the taxpayer. These

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deductions and exemptions have a relevant effect under the old tax regime whereas taxpayer can't avail the major deductions and exemptions under the new tax regime. A break even amount deductions and exemptions are calculated in the research. If taxpayer avail deduction above this break even amount then old regime is beneficial for the taxpayer otherwise new tax regime will be beneficial.

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