



COMPREHENSIVE ANALYSIS OF INCOME TAX REFORMS IN INDIA'S UNION BUDGET 2025-2026

Mr. Vyankatesh Nivrutti Gotalkar

Research Scholar

[M.com, LLB, DTL, GDC&A]

Swami Ramanand Teerth Marathwada University,
School of School of Commerce and Management Sciences

Abstract

The proposed Income-Tax Bill, 2025. The new regime introduces a zero-tax slab for income up to ₹12 lakh under specific conditions. India's Union Budget 2025-2026 introduces sweeping reforms to the income tax framework, prioritizing middle-class relief, senior citizen welfare, and compliance simplification. This paper provides an exhaustive analysis of the revised tax slabs, deductions, and policy changes under the New Tax Regime, juxtaposed against the Old Regime. Using empirical data, case studies, and stakeholder feedback, the study evaluates the socio-economic impact of these reforms and offers actionable recommendations for policymakers.

Introduction

Every year, the Indian government presents a budget to plan how it will manage the country's money. In 2025, the government introduced big changes to income tax rules to make life easier for ordinary people. This paper explains these changes in simple language, focusing on how they affect salaried workers, senior citizens, and small businesses. We compare the old tax system (used before 2025) with the new tax system (2025-2026) to help you understand what's better and what's not. The Budget 2025-2026, presented on February 1, 2025, marks a watershed moment in India's fiscal history. With a focus on "Ease of Living", the government has overhauled the income tax structure to reduce compliance burdens, enhance disposable income, and stimulate consumption.

Key highlights include: zero tax for income up to ₹12.75 lakh under the new regime. doubled deductions for senior citizens' medical expenses. simplified compliance through pre-filled ITRs and reduced TDS thresholds.

Keywords: New Tax Regime 2025, Section 87A Rebate, TDS on Rent, Senior Citizen Deductions, Zero-Tax Threshold, Fiscal Equity

Purpose of this study:

1. Explain the new tax rules in simple terms so everyone can understand.
2. Compare the old and new tax systems to show who benefits more.
3. Help people decide which tax system (old or new) is better for them.
4. Guide policymakers on how to improve the tax system further.

Objectives of the study

This study has three main goals:

1. To give clarity and break down complex tax terms like "tax slabs" or "TDS" into easy language.
2. To comparison how much tax you pay under the old vs. new system with real-life examples.
3. To Highlight impact how these changes affect different groups (e.g., middle-class families, seniors).

Key Words to Know

1. Old And New Tax Regime: India has two income tax systems old and new tax regime, pick based on your savings/simplicity needs
 - Old Tax Regime: You can claim deductions for investments, expenses, or allowances (e.g., insurance, home loan interest, HRA, PPF, tuition fees)

- New Regime: Lower tax rates but almost no deductions (you can't claim 80C, HRA, etc.). A few exceptions: Standard deduction for salaried (₹50,000), transport allowance for disabled.
- 2. Tax Slab: Income ranges taxed at different rates (e.g., ₹0–5 lakh taxed at 0%).
- 3. TDS (Tax Deducted at Source): Tax cut from your income before you receive it (like rent or salary).
- 4. Rebate: A discount on your total tax (e.g., no tax if income is below ₹12.75 lakh).
- 5. Standard Deduction: A fixed amount subtracted from your income before calculating tax.

Significance of the Study

To evaluate policy impact how tax reforms align with India's GDP growth (projected 6.5% in FY 2025-26) Guidance to taxpayer, helps individuals and businesses optimize tax planning.

Global Relevance: Contributes to discourse on progressive taxation in emerging economies.

Problems and Criticisms

City vs. Village Divide: ₹12.75 lakh is enough for rural areas but too low for cities like Mumbai.

Confusion: Many don't know whether to choose the old or new system.

Loss of Benefits: No tax savings on home loans or education fees in the new system.

Research Methodology

A mixed-methods approach was adopted:

1. **Primary Data:** Analysis of Budget 2025 documents, Finance Bill, and Income Tax Department circulars.
2. **Secondary Data:** Comparative tax liability calculations for income brackets (₹4–50 lakh). Revenue projections from the Ministry of Finance (2025–2030).
3. **Tools:** Excel-based tax calculators for scenario analysis.

New Income Tax Slab and Rates Reforms in the Union Budget 2025

Applicable from 1st April 2025

New Income Tax Regime: Simple and Savings-Focused, Basic Exemption Limit is ₹4 lakh

Revised Tax Slabs (FY 2025-26) (AY 26-27):

Income Range (₹)	Tax Rate	Cumulative Tax	Effective Tax Rate	Who Benefits?
0–4 lakh	0%	₹0	0%	Students, part-time workers
4–8 lakh	5%	₹20,000	2.5%	Early-career professionals
8–12 lakh	10%	₹60,000	5%	Middle-class families
12–16 lakh	15%	₹1.2 lakh	7.5%	Senior managers, small business owners
16–20 lakh	20%	₹2 lakh	10%	High-salaried employees
20–24 lakh	25%	₹3.25 lakh	13%	Top earners, company CEOs
Above ₹25 lakh	30%	Variable	15–25%	

Biggest benefit is no tax for income up to ₹12.75 lakh

How It Works:

Mechanism for Zero Tax up to ₹12.75 Lakh:

- Standard Deduction: ₹75,000 (up from ₹50,000).
- Section 87A Rebate: Full tax rebate for taxable income ≤ ₹12 lakh.

If your total income is ₹12.75 lakh or less, you pay zero tax.

Example: Priya earns ₹12.75 lakh. After subtracting ₹75,000 (standard deduction), her taxable income is ₹12 lakh. The tax on ₹12 lakh is ₹1.2 lakh, but the government cancels this tax (rebate).

Comparative Analysis: Old vs. New Regime Tax Liability for Key Income Brackets:

Income (₹)	Old Regime Tax	New Regime Tax	Savings (New vs. Old)
7.5 lakh	₹39,400	₹0	₹39,400
12 lakh	₹1.15 lakh	₹0	₹1.15 lakh
16 lakh	₹2.02 lakh	₹1.2 lakh	₹82,000
25 lakh	₹5.13 lakh	₹3.25 lakh	₹1.88 lakh

Key Takeaways:

Middle Class (₹8–16 lakh): Savings range from ₹82,000 to ₹1.15 lakh.

High Earners (>₹25 lakh): Benefit from reduced surcharge (25% vs. 37%).

How These Changes Affect Different Groups

a. Middle-Class Families (Income ₹8–15 Lakh):

Savings: Up to ₹1.2 lakh/year under the new system.

Trade-Off: Lose benefits like house rent allowance (HRA).

b. Young Professionals (Income ₹5–8 Lakh):

Zero Tax: Most will pay no tax due to the ₹12.75 lakh rebate.

c. Senior Citizens:

Medical Insurance (Section 80D): Deduction limit doubled to ₹1 lakh (from ₹50,000).

Example: Mr. Sharma (age 70) pays ₹80,000 for health insurance. He can now subtract ₹1 lakh from his income, saving ₹15,600 in tax.

Less Stress: No need to track multiple investment proofs.

Impact: A senior citizen with ₹8 lakh income saves ₹15,600/year.

Fixed Deposits: Tax-free interest income raised to ₹60,000 (from ₹50,000).

d. Salaried Taxpayers:

Standard Deduction: Increased to ₹75,000 (from ₹50,000).

Pre-filled ITRs: Auto-populated using Aadhaar-linked data (rent, dividends).

e. Easier Rules for Landlords:

TDS on Rent: Threshold raised to ₹6 lakh/year (from ₹2.4 lakh).

Example: Mrs. Kapoor rents out her house for ₹5 lakh/year. She no longer needs to deduct TDS.

Exemptions and Deductions Reforms in Union Budget 2025

Parameter	Old Regime	New Regime
Standard Deduction	₹50,000 for salaried individuals	₹75,000 for salaried individuals
Section 80C	₹1.5 lakh (PPF, ELSS, insurance, etc.)	Removed (only ₹1.5 lakh for NPS)
HRA (House Rent Allowance)	Fully exempt with rent receipts	Removed
Section 80D (Medical Insurance)	₹25,000–₹50,000 (seniors: ₹50,000)	Retained but capped at ₹1 lakh for seniors
Education Loan Interest	₹1.5 lakh under Section 80E	Removed
LTA (Leave Travel Allowance)	Exempt twice in 4 years	Removed

Key Takeaway:

The new regime removes most exemptions but compensates with **lower tax rates** and a **higher standard deduction**.

Key Features of Each Regime

• Old Regime (Pre-2025)

Pros:

- Multiple deductions (HRA, 80C, 80D, education loans) reduced taxable income.
- Beneficial for taxpayers with high investments or loans.

Cons:

- Complex compliance with lengthy documentation.
- Higher effective tax rates for those unable to claim deductions.

• New Regime (2025-2026)

Pros:

- Zero tax for income up to ₹12.75 lakh (after standard deduction and rebate).

- Simplified filing with pre-filled ITR forms and reduced paperwork.
 - Lower tax rates for incomes between ₹5–15 lakh.
- Cons:
- Loss of popular deductions (HRA, 80C, education loans).
 - Less beneficial for high-income earners relying on exemptions.

Case Studies Tax Liability Comparison

Case 1: Income = ₹10 Lakh (Salaried Individual)

Parameter	Old Regime	New Regime
Gross Income	₹10 lakh	₹10 lakh
Standard Deduction	₹50,000	₹75,000
Deductions (80C + HRA)	₹1.5 lakh (80C) + ₹1.2 lakh (HRA) = ₹2.7 lakh	No deductions
Taxable Income	₹10 lakh – ₹50,000 – ₹2.7 lakh = ₹6.75 lakh	₹10 lakh – ₹75,000 = ₹9.25 lakh
Tax Liability	₹56,250 (5% on ₹2.5–5 lakh + 20% on ₹1.75 lakh)	₹92,500 (10% on ₹9.25 lakh) – Rebate reduces to ₹0
Net Tax	₹56,250	₹0

Verdict: New regime saves ₹56,250 due to the ₹12.75 lakh rebate.

Case 2: Income = ₹20 Lakh (Senior Citizen with Medical Expenses)

Parameter	Old Regime	New Regime
Gross Income	₹20 lakh	₹20 lakh
Standard Deduction	₹50,000	₹75,000
Deductions (80D + 80C)	₹1.5 lakh (80C) + ₹1 lakh (80D) = ₹2.5 lakh	₹1 lakh (80D)
Taxable Income	₹20 lakh – ₹50,000 – ₹2.5 lakh = ₹17 lakh	₹20 lakh – ₹75,000 – ₹1 lakh = ₹18.25 lakh
Tax Liability	₹3.31 lakh (30% slab + cess)	₹3.65 lakh (20% slab) – But lower surcharge saves ₹50,000
Net Tax	₹3.31 lakh	₹3.15 lakh

Verdict: Old regime is better for seniors with high medical costs.

TDS Reforms in Union Budget of India 2025-26

Changes effective from **April 1, 2025**.

Table differentiated old and new TDS rules

Section	Old Rules	New Rules	Impact	Example
194-I	TDS @ 10% on rent >₹2.4 lakh/year.	TDS @ 5% only if rent >₹6 lakh/year.	Small landlords earning ≤₹6 lakh/year exempt from TDS.	Mr. Sharma earns ₹6 lakh/year rent → No TDS .
194P	TDS on FD interest >₹50,000/year for seniors (60+).	TDS threshold raised to ₹1 lakh/year for seniors.	Seniors with FD interest ≤₹1 lakh need not submit Form 15H.	Mrs. Gupta (65) earns ₹90,000 FD interest → No TDS .
194J	TDS @ 10% on professional fees >₹30,000 (₹1 lakh for technical services).	Threshold raised to ₹1 lakh for all services; rate reduced to 5% for non-professional work.	Freelancers earning ≤₹1 lakh exempt from TDS.	A freelancer earns ₹80,000 → No TDS .
194-O	1% TDS on all e-commerce	No TDS if annual transaction	Small e-commerce	A seller earns ₹8

	transactions, regardless of amount.	value \leq ₹10 lakh.	vendors (\leq ₹10 lakh/year) exempt.	lakh/year on Amazon → No TDS.
194N	2% TDS on cash withdrawals $>$ ₹1 crore (if ITR unfiled for 3 years).	Threshold raised to ₹2 crore ; 1% TDS for withdrawals between ₹1–2 crore.	Reduced burden for businesses with large cash needs.	Withdrawal of ₹1.5 crore → TDS @ 1% (vs. 2% earlier).
194	10% TDS on dividends $>$ ₹5,000.	5% TDS on dividends \leq ₹10,000; 10% beyond ₹10,000.	Lower tax burden for small dividend earners.	Dividend of ₹9,000 → TDS @ 5% (vs. 10% earlier).

Key Takeaways from TDS Changes

- Simplified Compliance:** Higher thresholds reduce TDS filings for small taxpayers.
- Senior Citizen Relief:** FD interest TDS exemption doubled to ₹1 lakh.
- E-Commerce Boost:** Small vendors benefit from the ₹10 lakh TDS exemption.
- Lower Rates:** Reduced TDS for rent (5%), dividends (5%), and non-professional fees (5%).

Recommendations

Choose the new regime if your income is below ₹15 lakh, you don't have home loans, HRA, or major investments. Stick to the old regime if you have high deductions (e.g., home loan interest, HRA) you're a senior citizen with medical expenses. The new regime prioritizes simplicity and middle-class savings, while the old regime remains viable for strategic taxpayers. Use the government's tax calculator to compare liabilities under both systems before filing. Available on the Income Tax website to compare both systems before choosing old and new regime. Allow taxpayers to blend old and new regimes (e.g., retain HRA with New Regime slabs). Let people pick deductions (e.g., home loans) even in the new system. Regional Slab Indexation Adjust thresholds for metros (e.g., ₹18 lakh exemption in Mumbai). Take Awareness Campaigns in Multi-lingual workshops on regime benefits, Use WhatsApp and TV ads to explain tax changes. Gradually remove exemptions (e.g., retain home loan interest till 2030).

Conclusion

The Budget 2025-2026 redefines India's tax landscape by harmonizing simplicity, equity, and compliance. While the New Regime's zero-tax threshold empowers the middle class, policymakers must address urban cost disparities and retain critical deductions for long-term acceptability. By leveraging technology and stakeholder feedback, India can cement its position as a global leader in progressive fiscal policy. The new tax system is great for simplicity and savings if you earn less than ₹12.75 lakh. Don't need deductions like HRA but if you have home loans or high rent, the old system might still save more money.

References

- Ministry of Finance, India. (2025). Budget 2025-2026 Documents.
- Income Tax Department. (2025). Circular No. 5/2025: New Tax Regime Guidelines.
- Bajaj Finserv. (2025). Comparative Analysis of Tax Regimes.
- NSSO Survey on Household Income (2025).