International Research Journal of Commerce and Law
Volume 07 Issue 04, April 2020 ISSN: 2349-705X Impact Factor: 5.486
Journal Homepage: http://ijmr.net.in, Email: irjmss@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal

Comparative Study of Old V/s New Tax Rates for Salaried Class Employees in Income Tax Act, 1961

Dr. S. P. Agrawal*

The Union Budget 2020 introduced a new personal income tax rates for individual taxpayers. New section 115BAC was inserted, according to that rate of taxes were reduced by the Finance Minister for simplifying the calculation of tax liability, widening tax base, bringing transparency and minimizing litigation. This new rate of taxes is optional. One may opt either old tax rates along with exemptions/deductions or new tax rates without availing any exemption or deduction. It was concluded that persons who are not interested in investing money in tax savings schemes with lock in periods use to be 3 to 5 years, new scheme is more beneficial. But, if income is less than Rs.12.5 lacks and Rs.2 lacks invested in Tax Savings scheme then old system will be more beneficial. In case of higher income with more investment (Tax Saving Schemes) say 5 to 6 lacks then it might be beneficial. But it may concluded that in each and every cases assessee should find out tax liability, then decision should be taken which one is beneficial.

Assumptions

1. Here basic exemption limit for the assesses whose age is less than 60 years is only taken, but this limit is Rs.3 Lacks and Rs.5 Lacks in case senior citizen (age is 60 years or more) and super senior citizen (age is 80 years or more) respectively.
2. Calculation of taxes is done without Health and Education Cess.
3. Amount of exemptions/deduction may vary from men to men.
4. Taxes in each year will depend on the tax rate.

Calculation of tax liability under Income Tax Act of a salaried class employees is very tedious work for an employee, even having some basic idea of income tax largely due to the fact availability of various exemptions/deductions namely: leave travel concession (LTC), Standard Deduction, Interest on self occupied house property and various deductions under Chapter VIA (other than 80CCD or Section 80JJAA) etc., so he has to take the help of a professional for this purpose. So, In order to bring simplify calculation of tax liability. Finance Minster introduced new tax rate (without any exemptions/deductions) of income tax in lieu of existing tax rate as given below:

Table 1
Existing tax rate for an individual

Income	Tax Rate
Income up to Rs.250000	Nil
Income between Rs.250001 to Rs.500000	5%
Income between Rs.500001 to Rs.1000000	20%
Income above Rs.1000001	30%

*Professor, Faculty of Commerce, B. H. U., Varanasi – 221 005 (U. P.)

The Union **Budget 2020** introduced a new personal **income tax** rates for individual taxpayers. New section 115BAC was inserted, according to that rate of taxes will be as follows:

Table 2

New tax rate for an individual

Income	Tax Rate
Income up to Rs.250000	Nil
Income between Rs.250001 to Rs.500000	5%
Income between Rs.500001 to Rs.750000	10%
Income between Rs.750001 to Rs.1000000	15%
Income between Rs.1000001 to Rs.1250000	20%
Income between Rs.1250001 to Rs.1500000	25%
Income Above Rs.1500000	30%

Above rate of taxes will be applicable, if assesses will not avail various exemptions/deductions given in table 3:

Table 3

List of conditions must be fulfilled for availing new tax rates

S.No.	Particulars	Section
1.	Leave travel concession	[Sec 10(5)]
2.	House rent allowance	[Sec 10(13A)]
3.	Special allowance detailed in Rule 2BB(Such as children education allowance, hostel allowance, transport allowance, academic allowance, uniform allowance, etc)	[Sec 10(14)]
4.	Allowance for clubbing of income of minor	[Sec 10(32)]
5.	(i) Standard Deduction, (ii) Entertainment Allowance and (iii) Professional Taxes paid	[Sec 16]
6.	Interest on loan in respect of self-occupied property or vacant property (loss under the head IFHP for rented house shall not be allowed to be set off under any other head but would be allowed to be c/f as per law);	[Sec 24]
7.	Standard Deduction from family pension	[Sec 57 (ii)]
8.	Deductions of Chapter VI-A (like section 80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80EE, 80EEA, 80EEB, 80G & 80GG, etc.). However, deduction under sub-section (2) of section 80CCD (employer contribution on account of employee in notified pension scheme) and section 80JJAA (for new employment) can be claimed.	Chapter VI-A

Impact of old tax rate on assesses:

- In case of old regime assesses is compel to make savings in specified securities where generally lock in period vary from 3 to 5 years which is considered forced saving and very much helpful for future for meeting expenses related to marriage, education, purchase of house property, medical, etc.
- As per available data of March, 2019 India's gross savings rate was approximately 30 per cent. Major contributors are tax payers, if they will adopt new income tax rate (optional), then rate of savings will be adversely affected but at the same time consumptions and demand would increase.
- Some of the tax payers don’t want to make investment in conventional tax savings schemes due to the fact they want to make investment in other star-rated funds related to mutual funds, which are performing better than tax savings schemes, so they can do that.
- Documentation and proof required in old regime but in new tax rate that is not required. So, if a person cannot maintain documents properly new tax rate is good for them.
- Old scheme of tax is not beneficial for those persons prefer to spend over savings.

Impact of new tax rate on assesses:

- **Reduced Tax Rate:**

Since most of the exemptions and deductions are not available so, the documentation required is almost nil. Hence, filing of Income tax return become simpler at the same time assesses will have to pay less tax in comparison to old tax rate.

- **Freedom from Investment**

Deduction/allowances/exemptions would not be criteria for availing the tax benefit hence, assesses are having more money which can be invested by them in open-ended mutual funds/instruments/deposits, which provides them good returns as well as flexibility of withdrawal as well. For instance, certain eligible instruments (which qualify for deduction u/s 80C) have a longer lock-in period such as fixed deposits with banks and post offices have a lock-in period of five years.

- **Liquidity Increases**

Since no investment is to be made for deduction in Income Tax Act, 1961 hence, investible funds increases in the hands assesses, so liquidity increases.

- **Lack of Forced Savings** In case of old regime assessee is compel to make savings in specified securities where generally lock in period vary from 3 to 5 years which is considered forced saving and very much helpful for future for meeting expenses related to marriage, education, purchase of house property, medical, etc ., but in new regime saving is not necessary, so assesses has to face problem at the time of dependent family member’s, education, marriage, expenses related to hospital or purchase of house property.

Assesses have to select between two rate of taxes

Before accepting the new rate of taxes employee will have to inform to his employer that I will pay tax this year (effective from F.Y. 2020-2021) or in any year as per new tax rate but at the time of filing of Income Tax return he is having option to choose any one of them (Either Old or New) on the basis taxes payable in both and should decide which one is beneficial. Taxpayer looking for flexibility in investment choices may give priority to new tax rate. Salaried class employees are having option to accept any one of them in each year.

If an assessee is going to accept new tax rate then certainly he will have to forego above exemptions/deductions. Usually each and every salaried class employee avail following deductions for instance

I.	Standard Deduction	Rs.50000
II.	Deduction u/s 80C	Rs.150000
III.	Deduction u/s 80TTA	Rs.10000
IV.	Interest on Self Occupied Property u/s 24	Rs.200000

Total in all it is more than Rs.4lakhs which may be more if LTC, HRA and some other deductions/exemptions are taken into account. So, blindly it cannot be said that new regime will be always beneficial. So, before adopting old/new one should find out tax liability taking into account exemptions/deduction in existing tax rate and without exemptions/deductions in new rate then decision should be taken.

From the point of view of having exact benefit/loss from old/new tax rate present paper has been divided into 5 parts namely:

1. Salaried employee not claiming any exemption/deduction.
2. Salaried employees claiming common deductions like Standard Deduction Rs.50000 U/S 16(i) & Rs.150000 U/S 80C.
3. Salaried employee claiming deductions discuss in point 2 & 80D, etc.
4. Salaried employee claiming Leave Travel Concession, House rent Allowance in addition to exemption/ deduction in point 3.
5. Salaried employee claiming various exemptions/deductions mentioned in point 4 and Interest on loan taken (maximum Rs.2 lacks U/S 24) for the construction/acquisition of self occupied house property.

CASE – 1

It is assumed that no exemptions/deductions is taken by the assesses then at various income level Tax Savings/Tax payable will be as follows:

Table 4
Statement showing the amount of Tax Savings, assuming no exemption/deduction is claimed in both options:

Annual Income	Tax Calculated As Per Existing Tax Rate On Column 1	Tax Calculated As Per New Tax Rate (On Column 1)	Tax (Payable)/ Tax Savings in New Tax Rate
(A)	(B)	(C)	(B – C)
250000	0	0	0
500000	12500	12500	0
750000	62500	37500	25000
1000000	112500	75000	37500
1100000	142500	95000	47500
1200000	172500	115000	57500
1250000	187500	125000	62500
1300000	202500	137500	65000
1400000	232500	162500	70000
1500000	262500	187500	75000
1600000	292500	217500	75000
1700000	322500	247500	75000
1800000	352500	277500	75000
1900000	382500	307500	75000
2000000	412500	337500	75000
2500000	562500	487500	75000
3000000	712500	637500	75000
3500000	862500	787500	75000
4000000	1012500	937500	75000
4500000	1162500	1087500	75000
5000000	1312500	1237500	75000

It is evident from the table that if, assesses are not claiming any exemptions/deductions in old as well as in new rate of taxes then he will save in each and every income group whether his income is more or less than Rs.15 lacks, he will save between Rs. 25 to 75 thousand in new tax slab in comparison to old tax slab
.
So, it is concluded that new tax slab is beneficial for each employee subject to condition he is not going to take any exemptions/deductions.

CASE – 2

Generally Salaried employees claims for Standard Deduction [U/S 16(i)] (Rs.50000) & U/S 80C (Rs.150000) amounting Rs.200000 only, then they will be in position to save amount as indicated in table – 5.

Table – 5

Statement showing the amount of Tax Savings, assuming exemption/deduction is claimed in Existing Tax Rate (Old Rate):

Annual Income	Deduction of S.D. & 80C	Net Income	Tax Calculated As Per Existing Tax Rate (On Colum 3)	Tax Calculated As Per New Tax Rate (On Colum 1)	Tax (Payable)/ Tax Savings in New Tax Rate
A	**B**	**(A – B)**	**C**	**D**	**(C – D)**
250000	200000	50000	0	0	0
500000	200000	300000	2500	12500	(10000)
750000	200000	550000	22500	37500	(15000)
1000000	200000	800000	72500	75000	(2500)
1100000	200000	900000	92500	95000	(2500)
1200000	200000	1000000	112500	115000	(2500)
1250000	200000	1050000	127500	125000	2500
1300000	200000	1100000	142500	137500	5000
1400000	200000	1200000	172500	162500	10000
1500000	200000	1300000	202500	187500	15000
1600000	200000	1400000	232500	217500	15000
1700000	200000	1500000	262500	247500	15000
1800000	200000	1600000	292500	277500	15000
1900000	200000	1700000	322500	307500	15000
2000000	200000	1800000	352500	337500	15000
2500000	200000	2300000	502500	487500	15000
3000000	200000	2800000	652500	637500	15000
3500000	200000	3300000	802500	787500	15000
4000000	200000	3800000	952500	937500	15000
4500000	200000	4300000	1102500	1087500	15000
5000000	200000	4800000	1252500	1237500	15000

Note: Amount shown in parenthesis ( ) represents additional tax payable in new tax slab.

Assesses position in old regime will be sound if, they are going to avail various exemptions/deductions like Standard Deduction & Deductions U/S 80 C. It is clear from the aforesaid table that assessee is availing deduction of Rs.2 lacks so, taxable income reduced by Rs 2 Lakhs. Table transpires that up to the gross salary of the assessee is Rs.12.24 lacks he has to pay more tax as per new tax slab. If gross salary of the assessee is between Rs.12.24 to Rs.14.99 lacks he has to pay less tax as per new tax slab and from Rs15 lakhs and onwards he will save Rs.15000 in new tax slab.

CASE – 3

Salaried employees claiming common deductions like Standard Deduction [U/S 16(i)] (Rs.50000), U/S 80C (Rs.150000) & 80D (Rs.25000) amounting Rs.225000 only then they will be in position to save amount as indicated in table – 6.

Table – 6

Statement showing the amount of Tax Payable/ Tax Savings, assuming exemption/deduction is claimed in Existing Tax Rate (Old Rate):

Annual Income	Deduction of S.D. 80C and 80D	Net Income	Tax Calculated As Per Existing Tax Rate (On Colum 3)	Tax Calculated As Per New Tax Rate (On Colum 1)	Tax (Payable)/ Tax Savings in New Tax Rate)
A	**B**	**(A – B)**	**C**	**D**	**(C – D)**
250000	225000	25000	0	0	0
500000	225000	275000	1250	12500	(11250)
750000	225000	525000	17500	37500	(20000)
1000000	225000	775000	67500	75000	(7500)
1100000	225000	875000	87500	95000	(7500)
1200000	225000	975000	107500	115000	(7500)
1250000	225000	1025000	120000	125000	(5000)
1300000	225000	1075000	135000	137500	(2500)
1400000	225000	1175000	165000	162500	2500
1500000	225000	1275000	195000	187500	7500
1600000	225000	1375000	225000	217500	7500
1700000	225000	1475000	255000	247500	7500
1800000	225000	1575000	285000	277500	7500
1900000	225000	1675000	315000	307500	7500
2000000	225000	1775000	345000	337500	7500
2500000	225000	2275000	495000	487500	7500
3000000	225000	2775000	645000	637500	7500
3500000	225000	3275000	795000	787500	7500
4000000	225000	3775000	945000	937500	7500
4500000	225000	4275000	1095000	1087500	7500
5000000	225000	4775000	1245000	1237500	7500

Note: Amount shown in parenthesis ( ) represents additional tax payable in new tax slab.

Table 6 depicts if assessee position will be sound if his income is more than 13.50 lacks as he has to pay less tax in new tax slab even if he is not claiming and deduction/ exemption. And if assessee income is less than 13.50 lacks, he will have to pay more tax in new tax slab.

CASE – 4

Salaried employee claiming various exemptions/deductions like LTC (Rs.45000), HRA (Rs.95000), Standard Deduction (Rs.50000), Deduction U/S 80 C (Rs.150000), 80D (Rs.25000), 80DD (Rs.25000) & 80TTA (Rs.10000) amounting Rs.400000 only then they will be in position to save amount as indicated in table – 7.

Table 7

Statement showing the amount of Tax Payable/Tax Savings, assuming exemption/deduction is claimed in Existing Tax Rate (Old Rate):

Annual Income	Deduction of S.D. 80C and 80D	Net Income	Tax Calculated As Per Existing Tax Rate (On Colum 3	Tax Calculated As Per New Tax Rate (On Colum 1)	Tax (Payable)/ Tax Savings in New Tax Rate)
A	B	C	D	E	(D – E)
250000	0	0	0	0	0
500000	400000	100000	Nil	12500	(12500)
750000	400000	350000	5000	37500	(32500)
1000000	400000	600000	32500	75000	(42500)
1100000	400000	700000	52500	95000	(42500)
1200000	400000	800000	72500	115000	(42500)
1250000	400000	850000	82500	125000	(42500)
1300000	400000	900000	92500	137500	(45000)
1400000	400000	100000	112500	162500	(50000)
1500000	400000	1100000	142500	187500	(45000)
1600000	400000	1200000	172500	217500	(45000)
1700000	400000	1300000	202500	247500	(45000)
1800000	400000	1400000	232500	277500	(45000)
1900000	400000	1500000	262500	307500	(45000)
2000000	400000	1600000	292500	337500	(45000)
2500000	400000	2100000	442500	487500	(45000)
3000000	400000	2600000	592500	637500	(45000)
3500000	400000	3100000	742500	787500	(45000)
4000000	400000	3600000	892500	937500	(45000)
4500000	400000	4100000	1042500	1087500	(45000)
5000000	400000	4600000	1192500	1237500	(45000)

Note: Amount shown in parenthesis ( ) represents additional tax payable in new tax slab.

If assesses are in position to take exemptions/deductions of Rs.4 lacks then table transpires it will be beneficial for them to accept existing tax rate, due to the fact in new tax rate he will have to pay more tax and that will vary between 12500 (at annual income Rs.5 lacks) to Rs.50000 ((at annual income Rs.14 lacks) and that will decrease to Rs.45000 at gross annual income at Rs.15 lacks and above.

It may be concluded that as amount of exemptions/deductions are going to increase existing rate of tax will be more beneficial.

Case – 5

Salaried employee claiming various exemptions/deductions like LTC (Rs.45000), HRA (Rs.95000), Standard Deduction (Rs.50000), Deduction U/S 80 C (Rs.150000), 80D (Rs.25000), 80DD (Rs.25000), 80TTA (Rs.10000) & Repayment of House Building Advance (Rs.2 lacks) amounting Rs.600000 only then they will be in position to save amount as indicated in table – 8.

Table 8

Statement showing the amount of Tax Payable/Tax Savings, assuming exemption/deduction is claimed in Existing Tax Rate (Old Rate):

Annual Income	Deduction of S.D. 80C and 80D	Net Income	Tax Calculated As Per Existing Tax Rate (On Colum 3)	Tax Calculated As Per New Tax Rate (On Colum 1)	Tax (Payable)/ Tax Savings in New Tax Rate)
A	B	C	D	E	(D – E)
250000	0	0	0		0
500000	600000	(-)100000	Nil	12500	(12500)
750000	600000	150000	Nil	37500	(37500)
1000000	600000	400000	7500	75000	(67500)
1100000	600000	500000	25000	95000	(70000)
1200000	600000	600000	32500	115000	(82500)
1250000	600000	650000	42500	125000	(82500)
1300000	600000	700000	52500	137500	(85000)
1400000	600000	800000	72500	162500	(90000)
1500000	600000	900000	92500	187500	(95000)
1600000	600000	1000000	112500	217500	(105000)
1700000	600000	1100000	142500	247500	(105000)
1800000	600000	1200000	172500	277500	(105000)
1900000	600000	1300000	202500	307500	(105000)
2000000	600000	1400000	232500	337500	(105000)
2500000	600000	1900000	382500	487500	(105000)
3000000	600000	2400000	532500	637500	(105000)
3500000	600000	2900000	682500	787500	(105000)
4000000	600000	3400000	832500	937500	(105000)
4500000	600000	3900000	982500	1087500	(105000)
5000000	600000	4400000	1132500	1237500	(105000)

Note: Amount shown in parenthesis ( ) represents additional tax payable in new tax slab.

Table 8 clearly shows that when exemption/deduction amount increased to Rs.6 lacks then assesses position is going to be stronger because he has to pay less tax in present income tax structure that varies between Rs.12500 (as net taxable income becomes negative due to exemptions/deduction but will have to tax in new rate of taxes amounting Rs.12500) to Rs. 105000 (net taxable income Rs.10 lacks or above).

Therefore, it can be said if assesses are interested to take the benefit of exemption/deduction then

International Research Journal of Commerce and Law
Volume 07 Issue 04, April 2020 ISSN: 2349-705X Impact Factor: 5.486
Journal Homepage: http://ijmr.net.in, Email: irjmss@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal

they should opt existing tax rate.
Income Tax Amount in table 4 to 8 computed as per rates mentioned in Table 1 for existing tax rate and Table 2 for new tax rate.

Few Examples to elaborate how tax is calculated in old v/s new tax slab.

Existing Tax Rate	**New Tax Rate**
Tax on Rs.2.5 lakh	
Total Tax payable = Rs.0	**Total Tax payable = Rs.0**
Tax on Rs.5 lakh	
[1st 2.5 lakh Nil + Balance Rs.2.5 lakh @ 5%= Rs.12500] **Total Tax payable = Rs.12500**	[1st 2.5 lakh Nil + Balance Rs.2.5 lakh @ 5%= Rs.12500] **Total Tax payable = Rs.12500**
Tax on Rs.7.5 lakh	
[1st Rs.2.5 lakh Nil +Next Rs.2.5 lakh @ 5% = Rs.12500 + @ 20% of Balance amount i.e., 20% of Rs.2.5 lakh = Rs.50000] **Total Tax payable = Rs. 62500**	[1st Rs.2.5 lakh Nil +Next Rs.2.5 lakh @ 5% = Rs.12500 + @ 10% of Rs. 2.5 = Rs.25000] **Total Tax payable = Rs. 37500**
Tax on Rs.10 lakh	
[1st Rs.2.5 lakh Nil +Next Rs.2.5 lakh @ 5% = Rs.12500 + @ 20% of Balance amount i.e., 20% of Rs.5 lakh = Rs.1 lakh] **Total Tax payable = Rs. 112500**	[1st Rs.2.5 lakh Nil +Next Rs.2.5 lakh @ 5% = Rs.12500 + @ 10% of Rs. 2.5 lakh =Rs.25000 +15% of Rs.2.5 lakh = Rs.37500] **Total Tax payable = Rs. 75000**
Tax on Rs.12.5 lakh	
[1st Rs.2.5 lakh Nil +Next Rs.2.5 lakh @ 5% = Rs.12500 + next Rs.5 lakh @20% = Rs.1 lakh + Balance Rs.2.5 @ 30% = Rs.75000] **Total Tax payable = Rs. 187500**	[1st Rs.2.5 lakh Nil +Next Rs.2.5 lakh @ 5% = Rs.12500 + Next Rs.2.5 lakh @10% =Rs.25000 + 15% of Rs.2.5 lakh = Rs.37500 + Balance Rs.2.5 @ 20% = Rs.50000] **Total Tax payable = Rs. 125000**
Tax on Rs.15 lakh	
[1st Rs.2.5 lakh Nil +Next Rs.2.5 lakh @ 5% = Rs.12500 + next Rs.5 lakh @20% = Rs.1 lakh + Balance Rs.5 lakh @ 30% = Rs.150000] **Total Tax payable = Rs. 262500**	[1st Rs.2.5 lakh Nil +Next Rs.2.5 lakh @ 5% = Rs.12500 + Next Rs.2.5 lakh @10% =Rs.25000 + 15% of Rs.2.5 lakh = Rs.37500 + Balance Rs.2.5 @ 20% = Rs.50000+25% of Rs.2.5 lakh = Rs.62500] **Total Tax payable = Rs. 187500**
Tax on Rs.20 lakh	
[1st Rs.2.5 lakh Nil +Next Rs.2.5 lakh @ 5% = Rs.12500 + next Rs.5 lakh @20% = Rs.1 lakh + Balance Rs.10 lakh @ 30% = Rs.300000] **Total Tax payable = Rs. 412500**	[1st Rs.2.5 lakh Nil +Next Rs.2.5 lakh @ 5% = Rs.12500 + Next Rs.2.5 lakh @10% =Rs.25000 + 15% of Rs.2.5 lakh = Rs.37500 + Balance Rs.2.5 @ 20% = Rs.50000+25% of Rs.2.5 lakh = Rs.62500+ 30% of Rs.5 lakh =Rs.1.5 lakh]

	Total Tax payable = Rs. 337500

Conclusion

On the basis of aforesaid analysis it can be concluded that New Tax Rate is more beneficial for them who are not interested in making investments in tax savings schemes and wants to bring flexibility in his investment but, if any person desires to take various exemptions/deductions available as per Income Tax Act, 1961 then Existing Rate of Tax may be more beneficial. However, it is advisable to make a comparative analysis before taking decision of adopting Existing Rate of Tax or New Tax Rate as it is optional for each and every year for individual having no income from Business/Profession.