



**Income Tax Department**  
**Central Board of Direct Taxes**



# **UNDERSTANDING** **THE OLD TAX REGIME** **VS** **NEW TAX REGIME**



The existence of two tax regimes is important as they provide flexibility and cater to different financial needs and preferences of tax payers.

**Q.1: What are the two tax regimes in India?**

**Ans:** The two tax regimes are Old tax regime and New tax regime.

**Q.2: Explain the old tax regime?**

**Ans:** Under this tax regime, taxpayer can claim various deduction, exemption and rebate to reduce their taxable income. This regime has higher tax rates compared to the new regime, but allows for numerous deductions and exemptions.

» **The tax slab rates for assessment year 2025-26 are as under:**

| Net income range (INR) | Resident Super Senior Citizen | Resident Senior Citizen | Any other Individual |
|------------------------|-------------------------------|-------------------------|----------------------|
| Up to 2,50,000         | Nil                           | Nil                     | Nil                  |
| 2,50,001-3,00,000      | Nil                           | Nil                     | 5%                   |
| 3,00,001-5,00,000      | Nil                           | 5%                      | 5%                   |
| 5,00,001-10,00,000     | 20%                           | 20%                     | 20%                  |
| Above 10,00,000        | 30%                           | 30%                     | 30%                  |

'Super senior citizen' means an individual whose age is 80 years or more at any time during the relevant previous year.

'Senior citizen' means an individual whose age is 60 years or more at any time during the relevant previous year but less than 80 years on the last day of the previous year.

» **Deductions, Exemptions and Rebate Available:**

• **Deductions:** Taxpayers can claim various deductions under sections **80C** (investment in PPF, ELSS, NSC, EPF, tuition fees for children, principal repayment on home loans), **80D** (health insurance) **HRA [10(13A)]**, **home loan interest under section 24(b)**, **80E** (Interest on education loans), **80G** (Donations to eligible charitable institutions), **80TTA/80TTB** (Interest income on savings accounts or deposits for senior citizens), **LTC[10(5)]**.

• **Standard deduction of INR 50,000** for salaried individuals and pensioners.

- **Rebate under Section 87A (up to INR 12,500):** Available for individuals with income up to INR 5 lakh, making income effectively tax-free up to this level.

- » **Surcharge:** Applicable at different rates based on income levels.

- » **Health & Education cess @ 4%.**

### Q.3: Explain the new tax regime?

**Ans:** This tax regime was introduced in budget 2020, offers lower tax rate but without the ability to claim deductions and exemptions except for NPS & EPF contribution.

» **The tax slab rate for assessment year 2025-26 have been enumerated in the below table:**

| Total Income (INR)          | Rate |
|-----------------------------|------|
| Upto 3,00,000               | Nil  |
| From 3,00,001 to 7,00,000   | 5%   |
| From 7,00,001 to 10,00,000  | 10%  |
| From 10,00,001 to 12,00,000 | 15%  |
| From 12,00,001 to 15,00,000 | 20%  |
| Above 15,00,000             | 30%  |

- » **Standard Deduction of INR 75,000** for salaried individuals and pensioners (from FY 2024-25).

- » **Rebate under Section 87A (up to INR 25,000):** Available for individuals with income up to INR 7 lakh, making income effectively tax-free up to this level. If the total income exceeds INR 7 lakhs, then marginal relief upto the differences b/w the tax payable on such income and amount by which it exceeds INR 7 lakhs.

- » **Surcharge:** Applicable at different rates based on income levels.

- » **Health & Education cess @ 4%.**

### Q.4: How one can determine which regime is beneficial for him/her?

**Ans:** One can choose between the regime based on their financial situation, including income, deduction & exemption eligibility and overall tax planning goals.

### Old Tax Regime is beneficial to:

- Those with significant investments in tax-saving instruments.
- Individuals with high deductions and exemptions, like medical insurance, home loans, and children's education expenses.
- People who prefer the flexibility to structure their finances around various tax-saving avenues.

### New Tax Regime is beneficial to:

- Individuals who do not have significant deductions or investments in tax-saving instruments.
- New entrants to the workforce, who may prefer lower tax rates with few obligations for financial planning.
- Those with a straight-forward income structure who prefer ease of calculation over tax-saving investments.

### **Q.5: How to choose the tax regime each financial year?**

**Ans:** Though new tax regime is the default tax scheme, however, a taxpayer can choose between the two regimes based on their preference.

**Salaried Individuals** can switch between the two regimes every financial year when filing his/her tax returns.

**Individuals with Business Income** can opt for Old Tax Regime only once and if this option is chosen, he has to file Form No. 10-1E on/before the date of filing the ITR.





**Q.6: Comparison of exemption/deductions available under the old tax regime and new tax regime of Section 115BAC.**

| Particulars  | Old tax regime (F.Y. 2024-25) | New tax regime (F.Y. 2024-25) |
|--|-------------------------------|-------------------------------|
| Income level for rebate eligibility  | INR 5 lakhs                   | INR 7 lakhs                   |
| Standard Deduction   | INR 50,000                    | INR 75,000                    |
| Rebate u/s 87A   | INR 12,500                    | INR 25,000                    |
| Standard Deduction [Section 16(ia)]  | Available                     | Available                     |
| Leave Travel concession [Section 10(5)]  | Available                     | Not Available                 |
| House Rent Allowance [Section 10(13A)]   | Available                     | Not Available                 |
| Official and personal allowances (other than those as may be prescribed) [Section 10(14)]                            | Available                     | Not Available                 |
| Allowances to MPs/MLAs [Section 10(17)]  | Available                     | Not Available                 |
| Entertainment Allowance [Section 16(ii)]   | Available                     | Not Available                 |
| Professional Tax [Section 16(iii)]   | Available                     | Not Available                 |
| Interest on housing loan for self-occupied house property [Section 24(b)]  | Available                     | Not Available                 |
| Deduction under Sections 80C to 80U other than specified under Section 80CCD(2), and Section 80CCH(2) [Chapter VI-A] | Available                     | Not Available                 |
| Set-off of any loss under the head "Income from house property" with any other head of income                        | Available                     | Not Available                 |
| Exemptions or deductions for allowances or perquisites provided under any other law for the time being in force      | Available                     | Not Available                 |

**Q.7: Whether any benefit/special advantage in tax rates are provided to senior citizen under New Tax Regime?**

**Ans.** In the old tax regime, the basic exemption limit for senior citizens is INR 3,00,000/- and for super senior citizens, it is INR 5,00,000/-. In the new tax regime, no income tax is payable upto the total income of INR 7 lakh.

**Q. 8: What should the employee keep in mind before choosing any of the regime?**

**Ans:** Usually the employers ask employees to declare their regime choice at the beginning of the financial year for TDS purposes. However, the employee can change his/her choice while filing their return.

**Q.9: How capital gain is taxed in the two regimes?**

**Ans.** Capital gains are taxed the same way under both regimes. The tax treatment for short-term and long-term capital gains remains unaffected by the choice of tax regime.

**Q.10: Is there any tool to help or assist the taxpayer to decide between the two regimes?**





**Ans.** Yes, the Income Tax Department's website provides a comparison tool to aid in making an informed decision. The Income Tax Website [www.incometaxindia.gov.in](http://www.incometaxindia.gov.in) provides a comparison tool to help taxpayer.

**Note:** - From the A.Y. 2024-25, the default tax regime will be the new tax regime of section 115BAC and a taxpayer need to explicitly opt out of the new tax regime and choose to be taxed under old tax regime. Further, there is no penalty for changing regimes (In case of business income only once it can be done).



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