

## A Brief Insight into the Introduction of a New Tax Regime in India

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### ABSTRACT

Since the inception of a new regime for filing taxes, there has been a discourse amongst taxpayers. The old tax regime provides opportunities to save taxes while, assisting to build a portfolio for fulfilling financial goals. Although, after introduction of new tax regime with less exemptions and deductions, one is free to choose between any of the two regimes. This would depend on many factors, but purely on the quantum of exemptions and deductions one hopes to avail. For individuals, with awareness about their financial condition for the year, choices may be clear. Otherwise, it may end in a deadlock. A commentary on tax regimes could be an added factor in the selection. However, due to unavailability of the acceptance rate for new tax regime, taxpayers are unable to gauge whether the new tax regime is favourable. Amidst this, the finance minister has made some vivid introductions to the new tax regime in the Union Budget of 2023 by increasing the tax rebate limit. This introduction is a valuable step for the tax system of India which has the potential to be advantageous for taxpayers. Hence, this research is conducted to understand the new tax regime and the role it can play for the welfare of taxpayers. This study also sheds some light on the factors which might influence the selection of the tax regime. The findings show that new tax regime simplifies the decision structure available to the taxpayers by reducing complexity and increasing the ease of compliance. The acceptance of new tax regime has also increased since the reforms introduced in Union Budget of 2023. Age Group, Yearly Income and Number of instruments invested are factors that influence the selection of tax regime. The collected data has been analysed using the Year over Year growth, Chi-Square test and One-way ANOVA test along with *post hoc* tests.

**Keywords:** Taxation, Union Budget, New Tax Regime, Tax Compliance, Nudges

**JEL Classifications:** H2, H20, H52, H61, G4

### 1. INTRODUCTION

Since 1991 reforms, the Indian economy has thrived while catering to the necessities of public. Amongst major reforms some were concerning the taxation system of India. The taxation system of a country must be less costly, lucid in nature and easy to comply (Dhingra, 2005). The introduction of presumptive taxation and indexation benefits on capital gains have been some of the substantial reforms to benefit the economy. Tax Administration adjustment was also made by reforming and adjusting the Tax deduction at source mechanism (Shome et al., 1996). These are some of the substantial reforms in the

being of Tax System in India but, Union Budget of 2020 has introduced a historic reform, an alternative or new tax regime. With simpler calculations, this tax regime has the potential to serve taxpayers who are unwilling to indulge in the hassle of deductions and exemptions. Since its inception, the chatter surrounding the new tax regime has been limited, may be due to no data on acceptance rate of the new tax regime among taxpayers. Nevertheless, after a period of three financial years, the new tax regime has been revamped in the Union Budget of 2023, by offering some enticing deductions and an increased tax rebate limit to attract taxpayers.

Some other countries have also introduced parallel tax regime targeting a set of taxpayers to ascertain filing and paying of taxes. For instance, Canada in 1986 introduced the Alternative Minimum Tax (AMT), to target high-income individual taxpayers by levying a basic income tax based on a simplified computation of taxable income (Sturm, 2021). The AMT is not similar to reforms introduced to Indian tax system but it is one of the prominent examples of alternative options for the taxpayers.

An effort made to alter the tax system, is generally to benefit the nation by simplifying tax compliance. Though the wide variety of income generated by taxpayers cannot be treated similarly in every nook and corner of the world, still horizontal and vertical parity should be the priority. The introduction of an alternative tax regime is also an attempt to reduce complexity and increase the ease of compliance. Income tax compliance is the act of paying taxes under the Income Tax Act, 1961. The maintenance of financial openness, increasing the national revenue and avoiding legal repercussions are dependent on Compliance. Also, cost of compliance is higher in India than in other nations. This cost should be brought down to a minimum to increase the filing of taxes (Chattopadhyay and Das-Gupta, 2002). The cost is high due to complexity of tax rules and inability of taxpayers to understand their liabilities. India has tried to make tax filing easier for its taxpayer and the new tax regime is a fragment of such initiation.

A Tax system based on direct taxes which graduates in a progressive manner is important for financing economic development and for controlling inflation (Wai, 1962). The smooth functioning of the personal tax collection can support government and its stakeholders. The filing and paying of taxes require a plethora of compliance. Studies such as Chattopadhyay and Das-Gupta (2002), Jusoh et al. (2021), Nichita et al. (2019) have explored the competencies/incompetencies of the tax system and tax structure of a nation in increasing ease of compliance.

Blaufus et al. (2020) in their behavioral tax response model explore the role of objective tax information regarding tax rates, tax base and tax procedures in increasing the tax compliance. Lately, the tax system of India has been reformed, the researcher found few studies such as De (2023), Shevate and Pande (2023). In lieu of the lack of literature concerning new tax regime, an investigation into its introduction and tendency to choose new tax regime has been explored.

### 1.1. Objectives of the Study

1. To review the introduction of a new tax regime in India
2. To determine the rate of acceptance of the new tax regime among taxpayers
3. To assess the role of select demographic and economic factors in the selection of a tax regime.

## 2. RESEARCH METHODOLOGY

The Researcher has applied the Stratified Random Sampling Technique for collecting data for the study. The population comprise of public sector banking and education employees in Kamrup metro district of Assam. The total population of the study is 5198. For sample size determination, the researcher has been guided by (Yamane, 1967)

method. Data has been collected from 400 respondents equally divided into banking and education sector employees. The study is exploratory and descriptive in nature. The objectives of the study explore two dimensions of the new tax regime. One where the new tax regime is presented in the light of secondary data by utilising content analysis technique. In the second dimension, the researcher has tried to examine the acceptance of new tax regime among select public sector employees with primary data. The respondents were distributed a structured questionnaire and questions were designed such that the factors which might play an essential role in choosing the new regime can be identified. The literature concerning the new tax regime is limited, thus the inquiries within this study are primarily directed towards initial understanding of the new tax regime and factors which influence the choice of tax regime.

### 2.1. Respondents Profile

Structured Questionnaires were distributed among sampled individuals, which comprise of select public sector banking and education employees. Table 1 shows the demographic profile of the respondents. 57.8% of the total respondents are Male and 42.2% are female. Highest number of respondents belong to 31-40 age group which accounts for 36.0% of the total respondents followed by 41-50 age group (27.8%), Above 51 age group (18.5%) and 21-30 (17.7%) age group. 21.2% of the respondents have a yearly income of 7,50,001-10,00,000 followed by 10,00,001-12,50,000 (17.8%), 12,50,001-15,00,000 (14.0%), 15,00,001-17,50,000 (13.0%), 5,00,001-7,50,000 (11.5%), 17,50,001-20,00,000 (8.3%), Above 22,50,001 (7.2%) and 20,00,001-22,50,000 (7.0%).

## 3. ANALYSIS AND INTERPRETATION

### 3.1. Objective 1: The Introduction of a New Tax Regime

Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it (Smith, 1776).

**Table 1: Demographic profile of the respondents**

Variables	Respondents (%)
Gender	
Male	231 (57.8)
Female	169 (42.2)
Total	400 (100)
Age group	
21-30	71 (17.7)
31-40	144 (36.0)
41-50	111 (27.8)
Above 51	74 (18.5)
Total	400 (100)
Yearly income (₹)	
500,001-750,000	46 (11.5)
750,001-1,000,000	85 (21.2)
1,000,001-1,250,000	71 (17.8)
1,250,001-1,500,000	56 (14.0)
1,500,001-1,750,000	52 (13.0)
1,750,001-2,000,000	33 (8.3)
2,000,001-2,250,000	28 (7.0)
Above 2,250,001	29 (7.2)
Total	400 (100)

Source: Field survey

The tax system of a nation should be optimally designed so that the pressure of paying taxes does not exploit the weaker sections. A perfect balance between horizontal and vertical equity can be a recipe to increase tax fairness and support the cause of principles of tax justice (Jain, 1975). Following the fundamental need to increase tax fairness in India, the Chelliah Committee headed by Dr Raja Chelliah suggested that structure of taxes must be acceptable to all i.e., the potential taxpayers. The committee made some major recommendations that aimed at a simplified and rational tax system. The reforms were intended to benefit the smaller income groups, but utilization of exemptions and deductions by high-net-worth individuals led to an unequal distribution of tax burden.

The Union budget introduces changes in taxation laws to make it sustainable. The Union Budget of 2020 introduced a new tax regime that aims at making tax filing easier, reduce tax rates, broaden tax slabs, and increase ease of compliance for taxpayers.

The Budget 2020 introduced a new tax regime (also known as the alternative tax regime) under section 115BAC of the Income Tax Act 1961, which gives taxpayers an option to pay taxes at reduced rates. These taxpayers have to forego exemptions and deductions to comply with the new tax regime. After three financial years, the tax slabs and rates have been revised. This step was taken to make the system attractive to the taxpayers.

A new tax regime is an alternative option given to taxpayers who are not willing to mandatorily comply with the long procedures of filing taxes, but still need to pay taxes. Many cannot afford the services of financial consultants and are still over-paying their taxes. Thus, the issues faced by the individuals can be attributed to lack of information, opaque tax system and lack of assistance.

In the earlier version of the new tax regime, taxpayers were given a tax rebate limit and tax rates that were similar to the old tax regime which was only beneficial to the lower-income groups. The acceptance of the earlier system of the new regime remains unaccounted for.

The Union Budget of 2023, has increased the tax rebate limit. It has also changed the tax slabs, tax rates and added a standard deduction for the benefit of taxpayers.

Table 2 shows the slabs and rates of new tax regime introduced in Union Budget 2020, which allows for paying taxes at these rates but without deductions and exemptions. Deductions such as Standard deductions, House Rent Allowance, Leave Travel Allowance and Section 80 deductions were not allowed in this version of new tax regime.

After three financial years, the new tax regime has been reformed to attract the interest of taxpayers. Table 3 shows the tax rates and slabs for the financial year 2023-2024. The new tax regime is default option for taxpayers from financial year 2023 to 2024. The tax slabs can be reformed along with a tax rebate of 7 lakhs which was earlier 5 lakhs, and is still 5 lakhs for Old Tax Regime. A marginal tax relief has been given to taxpayers

**Table 2: New tax regime (tax rates till FY 2022-2023)**

Income slabs	Rates (%)
Up to ₹250,000	Nil
₹250,001-₹500,000	5
₹500,001-₹750,000	10
₹750,001-₹1,000,000	15
₹1,000,001-₹1,250,000	20
₹1,250,001-₹1,500,000	25
Income above ₹1,500,001	30

Source: Income Tax Portal, India

**Table 3: New tax regime (tax rates from FY 2023-2024)**

Income slabs	Rates (%)
Up to ₹300,000	Nil
₹300,001-₹600,000	5
₹600,001-₹900,000	10
₹900,001-₹1,200,000	15
₹1,200,001-₹1,500,000	20
Income above ₹1,500,001	30

Source: Income Tax Portal, India

whose income is slightly above the range of 7.5 lakhs (Income Tax Portal, n.d.) provided they file under the new tax regime.

The salaried employee has an option to opt for one tax regime in a financial year and again choose the other in the next financial year. Whereas, in the case of a non-salaried taxpayer this option is not available. Taking into consideration, the requirements of tax planning, one needs to select the regime earlier in the year. Different ranges of income require a specific plan that benefits the taxpayer. The procedure remains the same but the amount of documentation and compliance reduces if one chooses, the new tax regime.

Non salaried individual taxpayers or the self-employed have one chance to choose the tax regime and stick to the decision. One with no plans to save and invest for the future can choose the new tax regime and steer away from the yearly burden of arranging records and planning taxes.

Taxpayers are interested in lesser compliance and lower tax remittances. The objective is to create a feasible tax system which has the capacity to raise social welfare. India is still working to raise tax literacy among its citizens. The nation is still taking baby steps in financial literacy; thus, tax literacy appears to be a long-sought battle. With the lack of elementary education in finances and taxes, adults find such decisions complex.

### 3.1.1. The Issue of Tax Complexity

Hoppe et al. (2021) formulated the two pillars of tax complexity, tax code and tax framework complexity. An empirical study designed by Sturm (2021) on the income tax complexity faced by Multinational Corporations has highlighted that Italy stands at the highest when it comes to total tax complexity, amongst The United Kingdom, The United States of America and OECD countries. Most of the countries with higher tax complexity are among the large economies. Economically developed nations tend to have complex tax codes but easy tax frameworks. Tax complexity may range from understanding the tax code, and rules

to planning taxes and time taken to comply with the tax rules. A complex system might not be easy to comprehend by taxpayers. Isa et al. (2014) and Saad (2014) found that the readability of tax codes and rules has a role to play in reducing tax complexity. It becomes necessary to use outside help to comply with the rules of taxation. Nations with higher tax complexity have lesser compliance. Jusoh et al. (2021) and Bahramov (2023) have highlighted the negative association between tax complexity and tax compliance.

### 3.1.2. The Case of Tax Compliance

India consists of one direct taxpayer for every 16 voters present. Only 1% of Indians pay taxes. The tax to GDP Ratio is much lower for India (10.8%) than most of the OECD (21%) and economies and emerging economies (34%). Thus, it is a never-ending struggle to bring the taxpayers to comply with taxes in India. A good theory of compliance decision is essential for designing a tax structure that deters evasion (Hashimzade et al., 2013). The choice theory states that when a decision is due there are two options, Risk and Uncertainty (Smith, 1776). With risk, there are choices while with uncertainty, there are no choices. The reform agencies focus on the former choice where there is risk but also options to deal with such risks.

Amongst many, one of the major roles of a competing authority is to make compliance of any nature easy. Compliance sets a standard to stop fraud, dishonesty and misconduct. Nations give options to their citizens to comply and pay taxes while abiding by rules and regulations.

Issues in the tax system that affect tax compliance:

- Language barriers make it tough for the public to understand finances and taxes. This has been affecting taxpayers for several years, as a result of no formal education about finances and taxes
- Opportunities to evade taxes differ across occupations which leads to different effects of certain taxable activities.

India has the highest number of tax disputes in the world due to the asymmetry of information. 10.6 trillion of the Indian revenue was stuck in income tax disputes at the end of financial year 2020-2021. The Sabka Vishwas Scheme for indirect taxes resulted in solving 189,000 cases and Vivad Se Vishwas scheme encouraged over 129,000 taxpayers to settle tax disputes of more than 980 billion.

The taxpayers have been dealing with taxes by seeking external help. Such costs endured are tax compliance costs. Tax compliance costs can be defined as costs borne by businesses and individuals for complying with tax regulations, excluding costs of the taxes to be paid. As tax system implementation is largely concerned with information processing, the bulk of costs of tax compliance are caused by information requirements, for instance, record keeping, filing tax returns with data etc. An average salaried taxpayer gives 28 h and a non-salaried taxpayer gives 88 h for complying with tax obligations. Out of total monetary costs, a taxpayer is seen to be spending a huge sum as fees to the advisor and tax planning respectively. Whereas in the case of non-salaried taxpayers, the amount incurred for record keeping is the highest followed by fees

paid to the advisor (Chattopadhyay and Das-Gupta, 2002). This study was before electronic tax filing facilities were introduced to taxpayers. Today, record-keeping has become easier as most of the transactions are digitally stored by the tax authorities and available for download with a PAN and its associated password. This available data has also made compliance easier and more affordable.

It is evident that reduction in tax complexity and extent of ease of compliance associated with taxation, is essential for taxpayers.

Studies have pointed out that if the environment where a decision is taken appears to be non-transparent, confusing and difficult, people are unable to identify the correct option for their welfare. This situation has been identified as sludges or bad nudges by Thaler and Sunstein (2008). To avoid such issues, reforms should be designed such that they make process of making decisions easy. Mertens et al. (2021) have identified three behavioural interventions or nudges to aid decision-making in any domain. These interventions can be made in the paradigm of decision information (Content presented to decision makers), decision structure (options given to decision makers) and decision assistance (help given to the decision makers). Though all these behavioural interventions are not possible to be added in the case of taxation, the new tax regime explores one of the above interventions.

### 3.1.3. New tax regime and the role it intends to play in increasing compliance

The above discussion has highlighted crux of the new tax regime and elaborated on recent reforms introduced to it. An identified hurdle for understanding tax regime and complying with it is tax complexity. The involvement in planning taxes throughout the year along with complying with all the regulations, is a tough practice. Thus, to reduce the pressure, the government has made a 'decision structure' intervention (Mertens et al., 2021; Sunstein, 2021; Alm et al., 2023).

The "decision structure" behaviour intervention includes Default options, option-related effort, range and composition of options and option consequences (Mertens et al., 2021).

It can be seen that the decision structure intervention is parallel to the changes introduced in the new tax regime in India. This can be understood from the discussion below:

- Default Option: The new tax regime was not the default option till the financial year 2022-2023, however since the financial year 2023-2024 it has been made the default option. Taxpayers who keep their tax planning till the end of the year have to select their intended tax regime, to avoid extra fines and penalties. Thus, when the new tax regime is a default option, one has to look at its content to understand whether it appears favourable or they should stick with the old tax regime.
- Option-Related Effort: There are minimum calculations in the new taxation regime, in comparison to the old taxation regime. The taxpayers can identify a valid difference between the two options and level of effort associated with the calculations.

- **Range and Composition of Options:** The new tax regime has increased the exemption limit and broadened the tax slab/rates, which makes it easy to calculate one's taxability provided the income from each source is known and revealed. The marginal relief option, given to the taxpayers is also an added advantage which is different than the older tax regime.
- **Option Consequences:** The new tax regime is the default option which means to avoid any penalty or fine, the taxpayer has to decide a regime much ahead in the financial year.

Thus, the decision structure is altered by giving legitimate and different choices to the taxpayers for their welfare. It can be said that the newest edition of New (or Alternate) Income Tax regime may lead to developments that can reduce complexity and lead to an increase in ease of compliance.

The new tax regime is one of the most vivid alterations made to the direct tax structure of India in the last two decades. With an agenda to increase fairness, the new tax regime is constantly being tailored to increase its relevance for taxpayers. The diversification in the taxpayers and the different sources of income raise the importance of a well-drafted tax regime that benefits all taxpayers. Though the new tax regime is a few years old, it has stirred a whirl since the reforms introduced in the financial year 2023-2024. Thus, the next section of the research explores the rate of acceptability of the new tax regime, while also exploring the factors which affect the choice of tax regime among select taxpayers.

### 3.2. Objective 2 and 3: Rate of Acceptability and factors associated with choice of Tax Regime

This section of the study explores the acceptability of new tax regime within taxpayers. A tabular representation of selection of tax regime has been presented below:

Table 4 shows number of respondents and their chosen tax regime for Financial Year 2022-2023 and Financial Year 2023-2024. The respondents were given three options to choose from, for the financial year 2022-2023, i.e., Old tax regime, New tax regime and I don't know (this option was given to avoid any assumptions on the researchers end about their tax knowledge). For the financial year 2023-2024, the taxpayers were given three options i.e., Old tax Regime, New tax regime and Not decided yet (this option was given to avoid any assumptions on the researchers end about their tax knowledge).

A substantial increase of 141.67% in selection of new tax regime can be seen. Whereas, a reduction of 8.18% in selection of old tax regime can be observed. The Union Budget of 2023 has made

**Table 4: Year over year growth**

Tax regime chosen by the respondents	FY 2022-2023	FY 2023-2024	Increase/decrease (%)
Old tax regime	330	303	-8.18%
New tax regime	24	58	+141.67%
I don't know	46	-	
Not decided yet	-	39	
Total	400	400	

Source: Authors own compilation

some changes to new tax regime that allows certain deductions and exemptions, that appears to be appreciated by a good number of respondents. The choice of new tax regime may also be attributed to other factors which are explored below:

#### 3.2.1. Factors associated to taxpayers affecting the selection of Tax Regime

The next section of the study explores factors associated to taxpayers that influence the selection of tax regimes. These factors have been carefully chosen to accommodate demographic and economic factors. Age groups, gender, sources of income, yearly income and number of instruments invested have been chosen to see their influence on tax regime selection. The above choices have been based on conceptual understanding of income tax and the associated decisions. Age and gender are basic underlying factors in taxation and finance-based studies. The economic factors have been kept limited to taxation based, such as sources of income which influence filing of taxes by leading to an increase of income and additional compliances, yearly income and number of instruments the taxpayer is invested in, that also affects selection of tax regime now that new tax regime does not offer the most preferred Section 80 deductions.

The following tables and charts represent the factors that may influence the choice of tax regime among the taxpayers:

Table 5 and Figure 1 show the age group wise selection of tax regime for financial year 2023-2024. It can be observed that respondents within the age group 21-30 (5.0%) and 31-40 (6.5%) tend to choose the new tax regime. While, the older age groups i.e., 41-50 and Above 51, have not found the motivation to select the new tax regime.

Table 6 and Figure 2 show the gender-wise chosen tax regime for financial year 2023-2024. It can be observed that Male (7.5%) and Female (7.0%) respondents have similar tendencies to choose new tax regime.

Table 7a and b and Figure 3 show the yearly income wise chosen tax regime for the financial year 2023-2024. It can be observed that respondents with yearly income 500001-750000 (3.5%), 750001-1000000 (5.5%) have the highest tendency to choose the new tax regime. Whereas the respondents with higher income are observed to have diminishing interest in choosing the new tax regime.

Table 8 and Figure 4 show the sources of income wise selection of the new tax regime. It can be observed that respondents with one source of income have the highest tendency to choose the new tax regime followed by respondents with two sources of income.

Table 9 and Figure 5 shows the number of instruments invested wise selection of the new tax regime. Respondents with less than four instruments invested (11.5%) have the highest tendency to choose the new tax regime followed by respondents with five to eight instruments invested (3.0%).

#### Testing of Hypotheses

- $H_{01}$ : There is no association between age group and selection of tax regime

**Table 5: Age group wise selection of tax regime for financial year 2023-2024**

Choice of tax regime	Age group								Total (count)
	21-30	%	31-40	%	41-50	%	Above 51	%	
Old tax regime	45	11.2	98	24.5	93	23.3	67	16.8	303
New tax regime	20	5.0	26	6.5	8	2.0	4	1.0	58
Not decided yet	6	1.5	20	5.0	10	2.5	3	0.7	39
Total	71	17.7	144	36.0	111	27.8	74	18.5	400

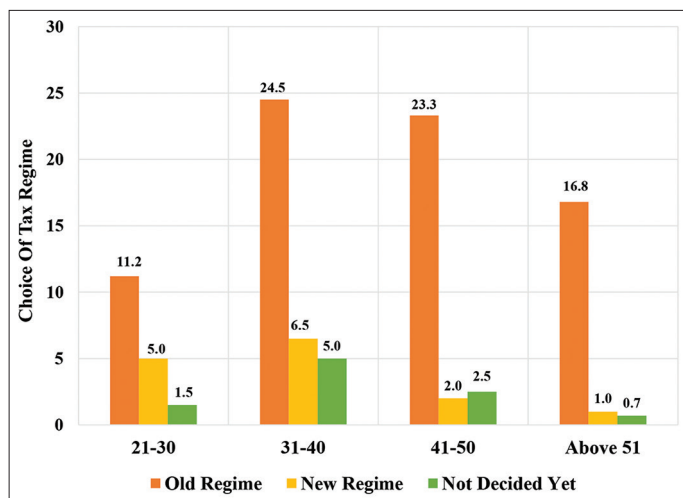
Source: Field survey

**Table 6: Gender wise chosen tax regime for financial year 2023-2024**

Choice of tax regime	Gender		Total
	Male (%)	Female (%)	
Old tax regime	182 (45.5)	121 (30.2)	303
New tax regime	30 (7.5)	28 (7.0)	58
Not decided yet	19 (4.8)	20 (5.0)	39
Total	231 (57.8)	169 (42.2)	400

Source: Field survey

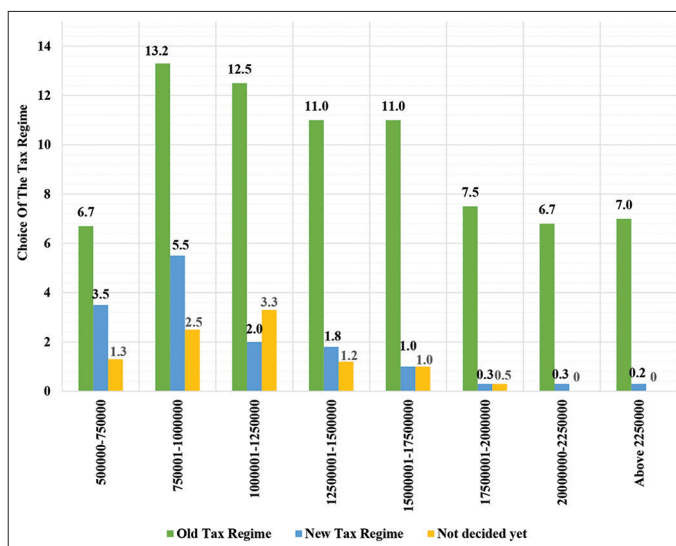
**Figure 1: Age group wise selection of tax regime for financial year 2023-2024**



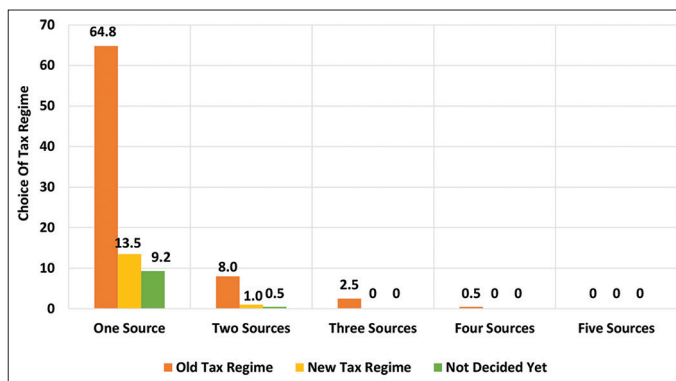
**Figure 2: Gender wise chosen tax regime for financial year 2023-2024**



**Figure 3: Yearly income wise chosen tax regime for financial year 2023-2024**



**Figure 4: Sources of Income wise chosen tax regime for financial year 2023-2024**



- $H_{02}$ : There is no association between gender and selection of tax regime
- $H_{03}$ : There is no association between yearly income and selection of tax regime
- $H_{04}$ : There is no association between sources of income and selection of tax regime
- $H_{05}$ : There is no association between number of instruments invested and selection of tax regime.

Table 10 shows the Chi-square values, degrees of freedom and significance levels associated with the hypotheses. Significant differences are found among age groups, yearly income and

**Table 7a: Yearly income wise chosen tax regime for financial year 2023-2024**

Choice of tax regime	Yearly income (₹)							
	500,001-750,000	%	75,000-1,000,000	%	1,000,001-1,250,000	%	1,250,001-1,500,000	%
Oldtax regime	27	6.7	53	13.2	50	12.5	44	11.0
New tax regime	14	3.5	22	5.5	8	2.0	7	1.8
Not decided yet	5	1.3	10	2.5	13	3.3	5	1.2
Total	46	11.5	85	21.2	71	17.8	56	14.0

**Table 7b: Yearly income wise chosen tax regime for financial year 2023-2024**

Choice of tax regime	Yearly income								Total
	1,500,001-1,750,000	%	1,750,001-2,000,000	%	2,000,001-2,250,000	%	Above 2,250,001	%	
Oldtax regime	44	11.0	30	7.5	27	6.7	28	7.0	303
New tax regime	4	1.0	1	0.3	1	0.3	1	0.2	58
Not decided yet	4	1.0	2	0.5	0	0	0	0	39
Total	52	13.0	33	8.3	28	7.0	29	7.2	400

Source: Field survey

**Table 8: Number of sources of income wise chosen tax regime for financial year 2023-2024**

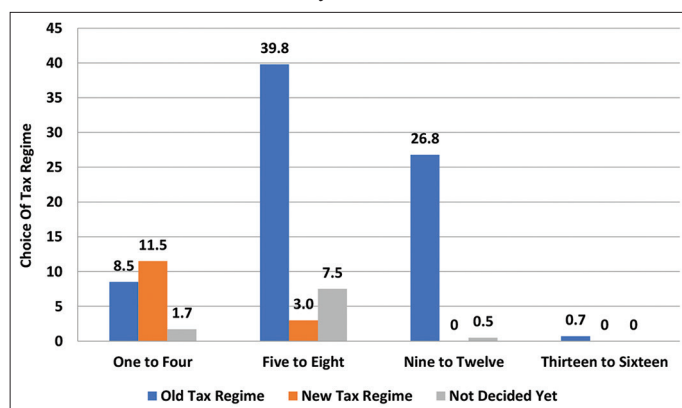
Choice of tax regime	Number of sources of income										Total
	One source	%	Two source	%	Three source	%	Four source	%	Five source	%	
Oldtax regime	259	64.8	32	8.0	10	2.5	2	0.5	0	0	303
Newtax regime	54	13.5	4	1.0	0	0	0	0	0	0	58
Not decided yet	37	9.2	2	0.5	0	0	0	0	0	0	39
Total	350	87.5	38	9.5	10	2.5	2	0.5	0	0	400

Source: Field survey

**Table 9: Number of instruments invested wise chosen tax regime for financial year 2023-2024**

Choice of tax regime	Number of instruments invested								Total
	One to four	%	Five to eight	%	Nine to twelve	%	Thirteen to sixteen	%	
Oldtax regime	34	8.5	159	39.8	107	26.8	3	0.7	303
New tax regime	46	11.5	12	3.0	0	0	0	0	58
Not decided yet	7	1.7	30	7.5	2	0.5	0	0	39
Total	87	21.7	201	50.3	109	27.3	3	0.7	400

Source: Field survey

**Figure 5: Number of instruments invested wise chosen tax regime for financial year 2023-2024**

number of instruments invested in selecting the tax regime, since the P-values for those hypotheses is  $<0.05$ .

Further we apply *post hoc* tests to conduct a one-on-one comparison between different age group, yearly income and number of instruments invested with selection of tax regime.

Table 11 shows the results of ANOVA test conducted along with the *post hoc* tests. The results of one-on-one comparison conducted on factors that showed association with selection of tax regime is presented in tables below (only significant differences are mentioned):

Table 12 shows that respondents in age group 21-30 have significantly different tax regime choices from age groups 41 to 50 and Above 51. The age group 31-40 is significantly different from the Above 51 age group. But there is no significant difference between tax regime choices of age groups 41-50 and Above 51.

Table 13 shows that respondents with yearly income of ₹500001-750000, ₹750001-1000000, ₹1000001-1250000 have significantly different choice of tax regime from the higher income groups i.e., ₹2000001-2250000 and above ₹2250001.

Table 14 shows that respondents with less number of investments significantly differ in selecting a tax regime from respondents with higher number of investments.

**Table 10: Chi-square tests**

Hypothesis	Pearson Chi-square value	Degrees of freedom	P
H <sub>01</sub>	33.015	6	<0.001 (reject)
H <sub>02</sub>	3.601	2	0.165 (accept)
H <sub>03</sub>	46.636	14	<0.001 (reject)
H <sub>04</sub>	5.991	6	0.424 (accept)
H <sub>05</sub>	147.479	6	<0.001 (reject)

Source: SPSS version 25.0

**Table 11: ANOVA test**

Variables	Sum of squares	Degrees of freedom	Mean square	F	P
Age groups					
Between groups	7.161	3	2.387	5.886	0.001
Within groups	160.599	396	0.406		
Total	167.760	399			
Yearly income					
Between groups	12.074	7	1.725	4.343	<0.001
Within groups	155.686	392	0.397		
Total	167.780	399			
Number of instruments invested					
Between groups	21.402	3	7.134	19.303	<0.001
Within groups	146.358	396	370		
Total	167.760	399			

Source: SPSS Version 25.0

**Table 12: Post hoc tests for one-on-one comparison on the basis of age group**

Age groups	Mean difference	P
21-30		
41-50	0.26388*	0.046
Above 51	0.38099*	0.003
31-40		
Above 51	0.29624*	0.006
41-50		
21-30	-0.26388*	0.046
Above 51		
21-30	-0.38099*	0.003
31-40	-0.29624*	0.006

Source: SPSS version 25.0

**Table 13: Post hoc tests for one-on-one comparison on the basis of yearly income**

Yearly income (₹)	Mean difference	P
500,001-750,000		
2,000,001-2,250,000	0.48602*	0.030
Above 2,250,001	0.48726*	0.026
750,001-1,000,000		
2,000,001-2,250,000	0.45840*	0.021
Above 2,250,001	0.45963*	0.017
1,000,001-1,250,000		
2,000,001-2,250,000	0.44316*	0.037
Above 2,250,001	0.44439*	0.032
2,000,001-2,250,000		
500,001-750,000	-0.48602*	0.030
750,001-1,000,000	-0.45840*	0.021
1,000,001-1,250,000	-0.44316*	0.037
Above 2,250,001		
500,001-750,000	-0.48726*	0.026
750,001-1,000,000	-0.45963*	0.017
1,000,001-1,250,000	-0.44439*	0.032

Source: SPSS version 25.0

**Table 14: Post hoc tests for one-on-one comparison on the basis of number of instruments invested**

Number of investments	Mean difference	P
One to four instruments		
Five to eight instruments	0.38956*	<0.001
Nine to twelve instruments	0.66138*	<0.001
Thirteen to sixteen instruments	0.72619*	0.025
Five to eight instruments		
One to four instruments	-0.38956*	<0.001
Nine to twelve instruments	0.27182*	0.001
Nine to twelve instruments		
One to four instruments	-0.66138*	<0.001
Five to eight instruments	-0.27182*	0.001
Thirteen to sixteen instruments		
One to four instruments	-0.72619*	0.025

Source: SPSS Version 25.0

## 4. DISCUSSION

The revenue of a nation is affected by its people and the morale they have towards taxation. The new tax regime is built by acknowledging the necessities of the taxpayers. Ease of Compliance is the expected outcome of reforms introduced to the taxation system. Blaufus et al. (2020) and Alm et al. (2023) explored the importance of nudging, to push taxpayers towards filing taxes timely and pay lesser taxes by increasing involvement in the decision making. The new tax regime is seen to intervene in the decision structure. The updated version of the new tax regime inhibits contrasting attributes than the old tax regime i.e., an increase in tax rebate limit to 7 lakhs, broadened tax slabs, different tax rates and a standard deduction. The bifurcation has become easier now. As the decision structure here has been altered and simplified, the extent of complexity shall also decrease. Further,



studies have identified that with lower complexity, the ease of compliance is expected to improve. Thus, the new tax regime appears to be a step in the right direction.

This study reveals the role of demographic and economic factors in the selection of a tax regime. The variables, gender and number of sources of income do not have a significant effect on selection of the tax regime but age group, yearly income and the number of instruments invested made by the respondents do. The results suggest that taxpayers in younger age groups are more likely to choose the new tax regime. Millennials account for 440 million (34%) of the total population in India (Economic Times, 2023), thus the new reformed tax regime, has a potential to resonate with them. The results from this study show that the shift towards new regime has increased by 141.67%. Respondents with lower yearly income and with less number of instruments invested are likely to choose the new tax regime. The introduction of the recent changes in new tax regime in the Union budget of 2023, that gives an option to be exempted at 7 lakhs per annum, appears as a desirable choice. Lesser instruments do fulfil the purpose of going for the new regime and claim lesser deductions.

Although it is designed for all the taxpayers, it can be observed that the older age groups are still benefitting from old tax regime whereas the younger age groups are interested in shifting to the new tax regime. Thus, we can say that the introduction of the new tax regime, though it aims to bring homogeneity and has the capacity to reduce complexity, still needs to attract the older age groups.

## 5. CONCLUSION

The role of taxation in the fiscal armour of a nation is indispensable. As taxpayers of a democratic nation, it is the role of each taxpayer to pay their dues for the upliftment of the nation. The new tax regime offers an easy alternative to the taxpayers to comply and pay their tax liabilities. To consume benefits from such regime it is essential for a taxpayer to be aware of their financial commitments and long-term plan which is possible with good financial and tax literacy.

### 5.1. Implications of the study

The findings of this study introduce an advanced way of reasoning with the new tax regime.

A country thrives when its citizens are well informed and are in the capacity to take their own decisions. Financial literacy has been a long-sought agenda of the nation, that appears to have increased awareness based on its campaigns. Nevertheless, tax literacy has not been approached with that vigour. It is true that educating the infinite population of a country can be a daunting task, thus reducing the complexity and increase the ease of compliance is the congruous way to approach. This study is an eye opener for government as well as the taxpayers. The former can benefit from the data that the younger taxpayers are attracted towards the new tax regime and also be alarmed that the older taxpayers are still shying away from it. Government may try and reboot the new tax regime to make the standard deduction proportional to the

yearly income of the taxpayers, which might be an incentive to the taxpayers, primarily the older age group of taxpayers. Though the number of taxpayers opting for the new regime is lesser than the old tax regime, it has risen immensely in comparison to last year. Thus, continuous reforms in this direction may lead the way to better state of tax compliance in India.

### 5.2. Limitations and Scope of Further Research

The introduction of the new tax regime is a few years old thus, a vivid study will be tough due to lack of literature. Hence, studies can be carried out to evaluate the acceptance of the new tax regime within other sections of individual taxpayers such as businessmen, professionals and Hindu Undivided Families.

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