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An Empirical Study Of The Effect Of New Tax Regime 2025: Benefits And Drawbacks For Salaried Professionals

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Abstract

The introduction of the New Tax Regime 2025 has brought about significant changes in the taxation structure for salaried professionals in India. This research paper aims to analyze the impact of the new tax regime on salaried professionals, highlighting the benefits and drawbacks of the new system. The paper will examine the tax slabs, deductions, and exemptions under the new regime and compare them with the old tax regime. Additionally, it will discuss the implications of the new tax regime on take-home salaries, tax liabilities, and overall financial planning for salaried professionals.

Key words: New tax regime, Salaried Professional, Tax Slab, Take home Salary.

Introduction:

The Indian government has introduced the New Tax Regime 2025, which aims to simplify the taxation structure and provide relief to taxpayers. The new regime offers lower tax rates, but with fewer deductions and exemptions. Salaried professionals, who form a significant portion of the Indian workforce, are directly affected by these changes. This research paper will explore the impact of the New Tax Regime 2025 on salaried professionals, focusing on the benefits and challenges posed by the new system.

Significance of the Study:

This study on the Impact of New Tax Regime 2025 on Salaried Professionals holds significant importance for various stakeholders. The study provides insights into the tax implications of the new regime, enabling salaried professionals to make informed decisions about their financial planning and tax compliance. It also informs future tax policy decisions, helping policymakers to refine the tax structure and mitigate any adverse effects on salaried professionals. It serves as a reference for tax professionals, enabling them to provide better guidance to their clients and help them navigate the new tax regime. In addition to the above it also Contributes to the existing body of research on taxation and provides a foundation for further studies on the impact of tax reforms on different segments of society. The study's findings can help the government to assess the effectiveness of the new tax regime and make necessary adjustments to achieve its policy objectives.

Scope of the Study

1. Salaried Professionals: The study focuses on individuals who earn a salary or wages as their primary source of income.
2. New Tax Regime 2025: The study examines the tax implications of the new regime introduced in 2025, including the new tax slabs, deductions, and exemptions.
3. Indian Taxpayers: The study is limited to Indian taxpayers who are salaried professionals and are subject to the new tax regime.
4. Financial Year 2025-26: The study considers the tax implications of the new regime for the financial year 2025-26.

Methodology

This research paper will employ a comparative analysis of the old and new tax regimes, focusing on the tax slabs, deductions, and exemptions. The study will also use case studies and examples to illustrate the impact of the new tax regime on salaried professionals.

Literature Review

Previous studies have analyzed the impact of tax reforms on individuals and businesses. Research has shown that tax policies can significantly influence taxpayer behavior, economic growth, and government revenue. The New Tax Regime 2025 is expected to have a substantial impact on salaried professionals, who will need to reassess their financial planning strategies in light of the changes.

Objectives:

1. To analyze the tax implications of the New Tax Regime 2025 on salaried professionals.
2. To compare the tax liability under the old and new tax regimes.
3. To examine the impact of the new tax regime on take-home salaries and financial planning for salaried professionals.

Limitations:

1. The study is limited to India and its tax laws.
2. The study focuses on the financial year 2025-26 and the new tax regime introduced in 2025.
3. The study may use a sample size of salaried professionals to gather data and insights.

New Tax Regime 2025: Key Features

The New Tax Regime 2025 offers the following key features:

- Lower tax rates for individuals with taxable income up to 15 lakhs
- Abolition of various deductions and exemptions, such as standard deduction, leave travel allowance, and interest on housing loan
- Introduction of a new tax slab structure with six tax brackets
- Optional regime, allowing taxpayers to choose between the old and new tax regimes

Impact on Salaried Professionals:

The new tax regime introduced under Section 115BAC of the Income Tax Act offers lower tax rates but fewer exemptions and deductions. Salaried professionals now have the option to choose between the old regime (with exemptions) and the new regime (lower rates, no exemptions). It will have both positive and negative impacts on salaried professionals.

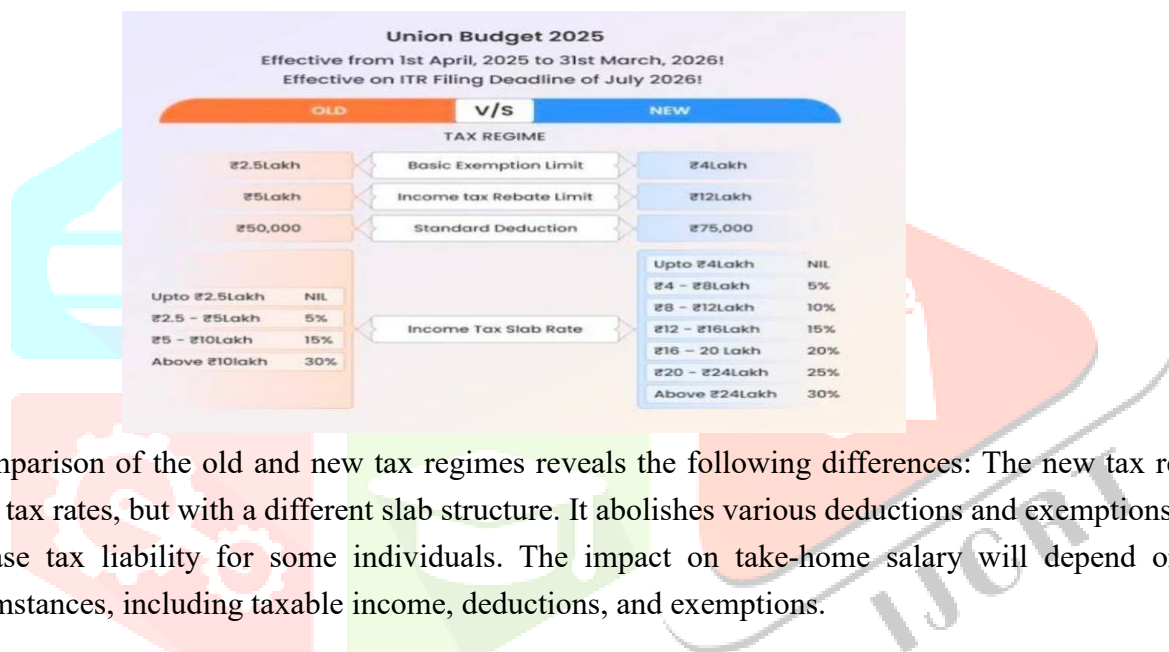
Benefits :

1. **Reduced Tax Liability:** The new tax regime offers lower tax rates, resulting in reduced tax liability for salaried professionals with taxable income up to ₹15 lakhs.
2. **Increased Take-Home Salary:** With lower tax rates, salaried professionals can expect an increase in their take-home salary, enabling them to meet their financial goals more effectively.
3. **Simplified Tax Compliance:** The new tax regime has a simpler tax structure, which can reduce the complexity of tax compliance for salaried professionals.
4. **Increased Disposable Income:** The reduction in tax liability can lead to increased disposable income, enabling salaried professionals to spend more on consumption and savings.

Drawbacks :

1. **Loss of Deductions and Exemptions:** The new tax regime abolishes certain deductions and exemptions, which can increase tax liability for some salaried professionals.
2. **Impact on Tax Benefits:** The abolition of tax benefits such as standard deduction, leave travel allowance, and interest on housing loan can reduce the benefits available to salaried professionals.
3. **Complexity in Tax Planning:** The new tax regime may require salaried professionals to reassess their tax planning strategies, which can be complex and time-consuming.
4. **Impact on Certain Segments:** The new tax regime may adversely impact certain segments of salaried professionals, such as those with high deductions and exemptions.

Comparison with Old Tax Regime:



A comparison of the old and new tax regimes reveals the following differences: The new tax regime offers lower tax rates, but with a different slab structure. It abolishes various deductions and exemptions, which may increase tax liability for some individuals. The impact on take-home salary will depend on individual circumstances, including taxable income, deductions, and exemptions.

Case Studies:

To illustrate the impact of the New Tax Regime 2025 on salaried professionals, let's consider the following case studies:

Case Study 1: Mr. X, a salaried professional with a taxable income of Rs.10 lakhs, claims a standard deduction of Rs .50, 000 and invests Rs.1.5 lakhs in tax-saving instruments. Under the old tax regime, his tax liability would be Rs.104, 000. Under the new tax regime, his tax liability would be Rs. 80,000, resulting in a tax saving of Rs. 24,000.

Case Study 2: Mr. Y, a salaried professional with a taxable income of Rs.20 lakhs, claims a standard deduction of Rs. 50,000 and invests Rs. 1.5 lakhs in tax-saving instruments. Under the old tax regime, his tax liability would be Rs. 368,000. Under the new tax regime, his tax liability would be Rs.416,000, resulting in an increased tax liability of Rs.48,000.

Findings:

- The study found that the new tax regime has resulted in a significant reduction in tax liability for salaried professionals with taxable income up to Rs.15 lakhs.
- The study observed that the new tax regime has led to an increase in take-home salary for salaried professionals who opt for the new regime.
- The study found that the abolition of certain deductions and exemptions under the new tax regime has resulted in a higher tax liability for some salaried professionals.
- It is observed that the optional nature of the new tax regime has provided flexibility to salaried professionals to choose between the old and new tax regimes.
- It has compared the tax liability under the old and new tax regimes and found that the new regime provides significant benefits to salaried professionals with taxable income up to Rs.15 lakhs.

Recommendations :

- Salaried professionals should stay informed about the new tax regime and its implications.
- Salaried professionals should seek professional advice from tax consultants or advisors to optimize their tax liability.
- Salaried professionals should review their financial planning to ensure that it is aligned with the new tax regime.
- The government and tax authorities should conduct awareness programs to educate salaried professionals about the new tax regime and its implications.

Conclusion:

The New Tax Regime 2025 has brought about significant changes in the taxation structure for salaried professionals in India. While the new regime offers lower tax rates and a simplified taxation structure, it also abolishes various deductions and exemptions, which may increase tax liability for some individuals. Salaried professionals will need to reassess their financial planning strategies in light of the changes and consider their individual circumstances to determine whether the new regime is beneficial for them.

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