

Evaluation Of The Dual Income Tax Regime In India: A Comparative Study Of Taxpayer Preferences

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ABSTRACT

This paper aims to examine the impact of India's dual income tax system on the decision-making behavior of individual taxpayers. The primary aim of the study is to examine the behavior of salaried employees in choosing between the old tax regime and the new tax regime. The factors influencing their behavior would also be identified. This paper is based on a sample size of 200 salaried employees in Bangalore. The research design adopted in this paper is descriptive and analytical in nature. The primary data was collected through structured questionnaires. Relevant information was also collected through secondary sources. Statistical methods such as Chi-square tests, ANOVA tests, and correlation tests were employed to analyze the data.

The results show that the majority of the respondents still prefer the old tax regime because of the availability of deductions and exemptions. The new tax regime is preferred by those who prefer simple and easy tax compliance. The results also show that the level of income is one of the factors that affect the tax regime preference. There is a difference in the tax regime preference at different levels of income. Taxpayer awareness is also one of the factors that affect tax regime preference. Higher levels of tax awareness result in more confident decisions. The results show that tax regime preference is affected by factors other than financial factors. Behavioral factors such as ease, familiarity, and risk also affect tax regime preference. Taxpayer education should be improved to help taxpayers make informed decisions in the dual tax system in India.

KEYWORDS: Dual tax system, taxpayer choice, personal taxation, income-based preference, tax awareness, financial literacy, tax planning, India

1. INTRODUCTION

Tax policy serves as a critical instrument for governments to achieve macroeconomic stability, promote equity, and mobilize revenue. The progressive slab system of a personal income tax in India, over time, has been sustained by a variety of exclusions and deductions provided in various sections such as 80C, 80D, etc. This system, though aiming to encourage savings and help in achieving various socio-economic objectives, has often led to a high level of complexity, which in turn often causes issues of compliance and an increase in litigations due to interpretational issues.

The Government of India has introduced a new system of taxation called the Dual Income Tax Regime in 2020 as a solution to these problems. Under this system, taxpayers are offered a choice between a simpler system with lower tax rates and fewer deductions, and the existing system that allows for several deductions and exemptions. This is a major policy shift that takes into account the varying risk profile of taxpayers and their investment and financial habits.

Taxpayers are still unsure about which system is better, despite the intended objective of simplicity and better voluntary compliance. Not only comparative tax obligation, but other factors like the risk behavior of individuals, their investment behavior, perception of tax justice, and their level of financial literacy and awareness also influence their decisions. These behavioral factors have been extensively discussed in the literature of public finance, but empirical studies on the issue of taxpayer decisions between the two systems in the Indian setting are scarce.

It is important to comprehend taxpayer opinion and choice under the dual regime system, as personal income tax is one of the major sources of government revenue and is significant in fiscal planning. By employing a structured questionnaire to obtain primary data from people at various economic levels, the current research gap is attempted to be filled. Apart from identifying differences in opinion regarding the old and new regimes, the current research also aims to identify key factors influencing taxpayer choice, such as taxpayer awareness, complexity, and demographics.

Moreover, this study also fits in with the global debate on tax simplicity and compliance. It also adds to the small body of literature available on tax compliance in India. Various nations have introduced optional tax systems, such as Sweden, Canada, and Australia. This shows the advantages and challenges that are associated with taxpayer choice. It is thus important to understand the behavior of taxpayers in India to create efficient tax laws and improve future compliance results.

2. LITERATURE REVIEW

In an effort to create a base for an understanding of the behavior of taxpayers under the dual income tax system in India, the following review of literature attempts to provide an overview of the existing studies on the preferences, levels of awareness, and factors influencing the choice between the old and new tax systems.

2.1 Taxpayer Preference between Old and New Tax Regime

In a study based on primary and secondary data, Goel (2021) examined the preference of taxpayers for the previous and new tax systems under Budget 2020. As per the report, even though satisfaction with the new system is low, people are attracted to it in search of lower tax rates and easier compliance. However, due to deductions and exemptions, which result in lower tax burdens and savings, the majority of people still prefer the previous system. The comparison of the old and new Indian tax system's structure and effects was studied in the report by R (2025). The previous system is still beneficial for taxpayers who succeed in utilizing tax-saving measures, even if the new system has simplified taxation by removing the majority of deductions from the system. The findings indicate that preference is not solely based on simplicity since tax savings play a significant role as well. D (2025) used primary data to study the behavior of taxpayers under Section 115BAC, using Karnataka as a sample size. The study found that due to the ease of operation and the liquidity benefits of the new system, younger citizens and people with fewer tax-saving investments tend to favor the new system, while, due to the planning benefits, older citizens with salaried jobs and long-term financial obligations tend to favor the previous system. Patiala (2020) focused on the impact of the new tax system on the tax planning methods of middle-class citizens. The study concluded that before making a choice, citizens must consider both systems carefully, as the former offers better tax-saving options in the form of deductions, making it a better option in most cases. Dodia (2024) researched the attitude of taxpayers towards the optional tax system and found that most of them still wanted to go back to the previous system, which had no deductions, even though

they believe that the new system is simpler. It is, however, noted in this report that this is a big step towards tax reform. In a report by Kaur, Dua, and Kaur (2025), primary data was collected to analyze the awareness and attitude of taxpayers towards the new tax system, and it was found that, though they are aware of the new system, their choice is based on their financial condition, i.e., whether they get any deductions or exemptions in the previous system or not.

2.2 Simplicity, Compliance, and Advantages of the New Tax Regime

Ojha and Agarwala (2024) examined the impact of the new tax system on taxpayer compliance and decision-making. According to the authors, the new tax system promotes better compliance and reduces complexity. In addition, it discussed the impact of the changes made in the Union Budget 2023, which made the new system more attractive and acceptable, especially to the younger generation. The study by Kaur and Saxena (2023) examined the taxpayer sentiment on the new tax system and the role of taxes in economic development. According to the authors, the new tax system, along with lower tax rates and higher rebate limits, can boost compliance and curb tax evasion. Priya (2025) employed secondary data to investigate the influence of the new tax policy on the government's income and taxpayer compliance. The study found that though the new policy makes the process easier for taxpayers, the level of knowledge and the continued benefits of the old policy influence the level of compliance with the new policy, which is moderate. Kamble and Suhanaisak (2024) focused on the changes introduced in the Union Budget for the financial years 2023-2024, particularly the implementation of the new system by default. The changes have enhanced the importance and compliance with the new system.

2.3 Factors Influencing Taxpayer Decision (Behavioral and Demographic Factors)

In a comparison of the two tax systems, Abidin (2025) noted that financial goals, income, and demographic factors all have an effect on taxpayers. This study highlighted the need for customized planning in choosing the right tax regime. In a study based on primary data, Patil and Gharat (2025) investigated taxpayer behavior. The results showed that income, investment habits, and ease of compliance all have an effect on taxpayers. Financial literacy needs to be improved, along with advice from experts. Amutha & Bhuvaneshwari (2025) conducted an ANOVA and SEM study on taxpayer attitude. The findings revealed that opinions about the new tax system are significantly affected by perceptions of fairness and simplicity of use, which in turn affects adoption. A study on taxpayer awareness and perception of the new tax system was conducted by Gunavardhan (2025). The findings revealed that although awareness about the new system was reasonable, acceptance of the same was based on age groups, where young taxpayers were more inclined to adopt the new system. A study was conducted by Sayyad (2025) targeting salaried employees, focusing on aspects such as tax liabilities, savings, and investment concerns. This study revealed the importance of policy changes in influencing taxpayer decisions.

2.4 Financial Literacy, Awareness, and Tax Planning

Deshpande and Rakshe (2025) undertook a study to determine the influence of financial knowledge on tax planning decisions. The findings of the study indicate that taxpayer decisions are significantly affected by their knowledge and understanding of various tax saving options, and many are not knowledgeable enough to optimize their decisions. Shevate and Pande's (2023) analysis of taxpayer preferences identified that many people find it hard to choose between the two regimes. The study emphasized the need to increase knowledge to enable well-informed decisions and cited the cultural background of Indians, who are known to be thrifty.

The importance of awareness was again emphasized by Kaur, Dua, & Kaur (2025), which stated that even if taxpayers are aware of the new system, conventional tax saving practices and financial concerns still affect taxpayers' decisions. Priya (2025) again emphasized the importance of awareness in relation to adoption, which stated that if taxpayers are not aware of the benefits of a new system, they may continue to use the old system.

2.5 Comparative Analysis and Impact on Tax Liability

A supplementary data-based analysis was conducted by Sah (2023) to determine the advantages that both systems offer after the recent changes. The major aim of the analysis was to comprehend the implications of recent modifications to the taxation code for taxpayer decisions and benefits. The in-depth analysis of the taxation obligations under both systems was provided in Abidin (2025) and Sayyad (2025); however, the authors came to the conclusion that, even though the new system is simpler, the old system often means lower taxation obligations for individuals who are able to utilize deductions. The contribution to the comparative analysis was made by R (2025) through the application of scenario-based techniques to demonstrate the significance of the taxpayer's ability to utilize deductions as one of the major factors in determining the choice of system.

2.6 Policy Framework and Overview of the Tax System

A comprehensive description of the Indian tax system, including direct and indirect taxes levied by both federal and state governments, was provided by Choudary (2021). This paper presents a fundamental framework to understand the broader tax system in which the dual tax regime is implemented.

3. OBJECTIVES OF THE STUDY

1. To examine the preferences of taxpayers between the old and new personal income tax regimes in India.
2. To analyze the key determinants influencing tax regime selection among individual taxpayers.

4. HYPOTHESES

H1: There is a significant association between income level and tax regime choice.

H2: Financial literacy significantly influences tax regime selection.

H3: Tax awareness significantly influences tax regime choice.

5. RESEARCH METHODOLOGY

In order to find out taxpayer preferences and factors affecting the choice between old and new income tax regimes in India, a descriptive and analytical research design was used. By using methods such as percentages and frequency distribution, a descriptive research design provides a summary of taxpayer preferences, income levels, awareness, etc. On the other hand, an analytical research design helps to analyze relationships between variables such as income, financial literacy, awareness, etc., by using statistical methods.

The research design used in the study is cross-sectional and quantitative. In this type of research, a structured questionnaire was used to collect primary data from 200 salaried employees in Bangalore through online platforms such as Google Forms. Secondary data was collected from government reports, journals, etc. Income level, financial literacy, awareness, investing, and demographic variables such as age, gender, education, and occupation are considered independent variables, while the dependent variable is tax regime, either old or new.

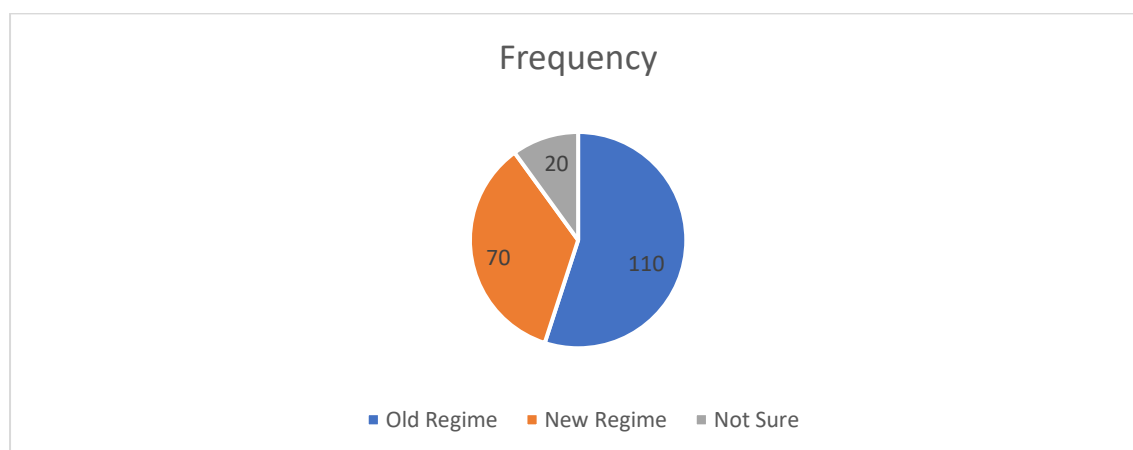
Both descriptive and inferential statistics are applied in data analysis. To test the hypotheses and examine the correlation between variables, Chi-square test, One-Way ANOVA, and correlation test are applied. A p-value of less than 0.05 shows a significant relationship between variables, and all the hypotheses are tested at a 5% significance level.

In light of this, it is evident that the research methodology ensures a systematic and unbiased investigation of taxpayer behavior in relation to the dual income tax system.

6. DATA INTERPRETATION AND ANALYSIS

To Analyse Taxpayers' Current Tax Regime

| Current Regime | Frequency | Percentage |
|----------------|-----------|------------|
| Old Regime | 110 | 55% |
| New Regime | 70 | 35% |
| Not Sure | 20 | 10% |



Interpretation:

Based on the results, it shows that 55% favor the previous system, 35% favor the current system, and 10% are unsure. This shows that due to the advantage of deductions and exemptions, the previous system is still more favored, even though the new system is simple. However, the increasing predisposition towards simplicity and ease is seen in the preference for the new system.

Impact of Income Level on Tax Regime Preference

| Income Group | Old Regime | New Regime | Not Sure | Total |
|--------------|------------|------------|-----------|------------|
| 1 | 0 | 20 | 20 | 40 |
| 2 | 20 | 30 | 0 | 50 |
| 3 | 0 | 50 | 10 | 60 |
| 4 | 0 | 40 | 10 | 50 |
| Total | 20 | 140 | 40 | 200 |

| Test | Value | Df | p-value |
|---------------------|-------|----|---------|
| Pearson Chi- Square | 93.57 | 6 | <0.001 |

Interpretation:

The null hypothesis was rejected based on a Chi-square test, which revealed a strong correlation between income level and tax regime preference ($\chi^2 = 93.57$, $p < 0.001$). This implies that high-income groups have more differentiated preferences, thus emphasizing the effect of income level on tax regime choice, while low-income groups prefer or are undecided about the new regime.

Impact of Knowledge of New Tax Regime on Taxpayer

| Knowledge of New Regime | Old Regime | New Regime | Not Sure | Total |
|--------------------------------|-------------------|-------------------|-----------------|--------------|
| Yes | 90 | 90 | 0 | 180 |
| No | 0 | 0 | 20 | 20 |
| Total | 90 | 90 | 20 | 200 |

| Test | Value | Df | p-value |
|----------------------------|--------------|-----------|----------------|
| Pearson Chi- Square | 200 | 2 | <0.001 |

Interpretation:

Knowledge about the new tax regime and tax regime choice have a statistically significant correlation at a 0.05 level of significance, according to the Chi-square test result ($\chi^2 = 200$, $p < 0.001$). The null hypothesis is rejected here because the p-value is less than 0.05. According to the result of the cross-tabulation table, the people who are aware of the new tax regime clearly make a choice between the old and the new tax regimes, whereas the people who are not aware of the tax regime are completely unsure about the tax regime choice.

Impact of Deduction Awareness on Tax Regime

| Awareness of Deductions | Old Regime | New Regime | Not Sure | Total |
|--------------------------------|-------------------|-------------------|-----------------|--------------|
| Yes | 100 | 50 | 0 | 150 |
| No | 0 | 30 | 20 | 50 |
| Total | 100 | 80 | 20 | 200 |

| Test | Value | Df | p-value |
|----------------------------|--------------|-----------|----------------|
| Pearson Chi- Square | 116.67 | 2 | <0.001 |

Interpretation:

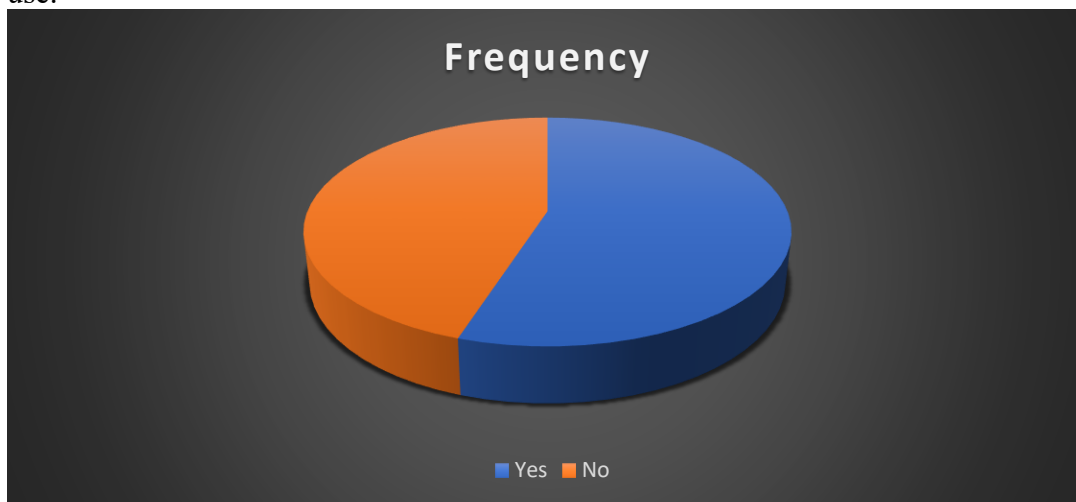
The null hypothesis is rejected in this case, given that the Chi-square test indicates a substantial correlation exists between tax regime preference and awareness of deductions ($\chi^2 = 116.67$, $p < 0.001$). According to the findings, the majority of the population that is aware of the deductions prefers the previous tax system, whereas those that are not aware tend to prefer the new system or are not sure about it. This indicates the influence that exists in the preference for tax-saving systems among the population.

Analysis of Investment in Tax Saving Instruments

| Invest in Tax Saving Instruments | Frequency | Percentage |
|-----------------------------------------|------------------|-------------------|
| Yes | 110 | 55% |
| No | 90 | 45% |

Interpretation:

Based on the findings, 55% of the respondents make tax-saving investments, while 45% do not make any investments. This indicates a moderate level of participation in tax-saving activities. Taxpayers who make investments may be in favor of the old system due to the deductions, while those who do not make investments may be in favor of the new system due to its ease of use.



Relationship Between Tax Understanding and Confidence in Regime Selection

| Variables | Understanding | Confidence |
|---------------|---------------|------------|
| Understanding | 1.00 | 0.974 |
| Confidence | 0.974 | 1.00 |

N=200

Correlation is significant at the 0.01 level ($p < 0.001$)

Result

- Spearman's rho (ρ) = 0.974
- p-value < 0.001
- N = 200

Interpretation

The Spearman's correlation result indicates a strong positive relationship between tax understanding and confidence in the selection of the regime, as the rho value is 0.974, and $p < 0.001$. This implies that the relationship is significant at a given level of significance, as the p-value is less than 0.05.

7. FINDINGS

- The people surveyed belong to different economic brackets, ensuring that a variety of taxpayers are represented.
- The new system does not enjoy as much support among taxpayers as the previous one did.
- Taxpayer awareness also varies. Some have sufficient awareness of the tax policies, but others have little idea of what the policies entail.
- There is a significant positive correlation between the level of income and the preferred tax regime. Those with higher incomes benefit more from deductions and hence support the previous system, whereas those with lower incomes either support the new system or are uncertain.

- When making a decision, tax knowledge plays an important role. A clear and educated decision can be made by taxpayers if they are more knowledgeable about tax systems.
- Preference depends on factors such as knowledge of deductions and exemptions. Taxpayers who are more knowledgeable about deductions and exemptions tend to prefer the previous system.
- Regime selection depends on behavioral factors such as comparing tax liabilities and investing in tax-saving devices. Taxpayers who compare and invest tend to prefer the old regime.
- It is possible that people with higher incomes are more financially literate, based on the ANOVA outcomes, which highlight that there is a considerable effect of income level on comprehension and weights applied to deductions.
- There is a positive correlation between understanding and confidence, suggesting that knowledge is directly related to confidence in decision-making in tax-related issues.
- In general, a variety of economic factors (income, deductions, investments), awareness factors (knowledge, comprehension), and behavioral factors (comparison, confidence) are considered in deciding tax regime, which again shows the complexity of decision-making in this context.

8. CONCLUSION

The aim of the current study is to identify the major factors that play a role in the choice of the Indian taxpayer regarding the old and new income tax systems in India. The findings of the study revealed that the choice of a tax system is affected by a number of factors rather than a single choice.

The report indicates that the choice of a taxpayer is largely influenced by the income level of the taxpayer. Due to the benefits of deductions and exemptions that help in efficient tax planning and reduction of tax burden, the previous tax system is more appreciated by people with high incomes. However, some taxpayer groups have shifted their choice to the new system on the basis of its simplicity and ease of compliance.

The process of decision-making was significantly affected by awareness and financial literacy. It has been established that taxpayers who are knowledgeable and comprehend the subject make more confident and knowledgeable decisions. Ignorance has also been seen to create ambiguity or poor decision-making in some instances. Financial planning enhances the quality of decision-making, as seen in the significant impact of behavioral factors on regime choice, such as the tendency to compare tax liabilities and participate in tax-saving investments.

The overall conclusion of the study is that a complex interaction between a person's financial capacity, knowledge, and behavior plays a crucial role in determining the tax system. These findings of the study reveal the importance of enhancing the level of financial literacy, taxpayer awareness, and availability of quality advisory support to enable taxpayers to take better decisions, which in turn can lead to a better efficiency of the dual income tax system in India. The study also contributes to the existing pool of knowledge on the subject, providing useful insights to financial experts and legislators to better understand taxpayer behavior and take effective measures to enhance tax compliance.

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