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Old vs. New Income Tax Regime in India: A Comparative Study of Taxpayer Preferences and Revenue Implications

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ABSTRACT: India's income tax landscape is undergoing a transformative shift with the introduction of the Income Tax Act, 2025, aimed at making taxation simpler, clearer, and more in tune with today's digital economy. This groundbreaking legislation replaces the archaic Act of 1961 and is designed not to increase tax rates but to overhaul the entire experience of compliance reducing disputes, streamlining procedures, and fostering a trust-based system. The new Act introduces revised tax slabs, such as a zero-tax threshold up to Rs. 12 lakh for certain taxpayers, and simplifies tax structures with fewer sections and a more intuitive layout. Overall, the reforms seek to make the tax process more predictable, transparent, and accessible for individuals, small businesses, and professionals, ultimately contributing toward a more vibrant and compliant economy.

I. INTRODUCTION

Taxation is often seen as a complex web for everyday taxpayers something difficult to understand and even harder to navigate. Recognizing this challenge, the Indian government has recently launched the most significant overhaul of its income tax system in over six decades, with the formal rollout of the Income Tax Act, 2025. This new legislation aims to bring clarity and simplicity to the tax process, making it easier for every Indian to fulfil their civic duty without the stress of confusing rules and endless paperwork.

The old tax laws, although comprehensive, were often criticized for their complexity, ambiguity, and potential for disputes. The 2025 reforms focus on modernizing these laws, making them more accessible through plain language, structured layouts, and digital integration. The new Act introduces a more straightforward tax slab regime—such as a zero-tax threshold for incomes up to Rs. 12 lakh and broadens exemptions for certain groups, including senior citizens and small entrepreneurs. It also emphasizes transparency, reducing administrative hurdles and disputes, and aligning India's tax framework with global best practices.

This overhaul is not just about rates; it's about changing the very experience of paying taxes. By simplifying procedures, clarifying rules, and leveraging technology, these reforms aim to foster trust between taxpayers and the government. As India continues to grow economically and digitally, these reforms position the country to build a more equitable, efficient, and compliant tax system one that encourages honesty and promotes economic growth for all citizens.

II. REVIEW OF LITERATURE

Recent research and expert analyses on the Income Tax Act, 2025 highlight its transformative impact on India's tax system. Dr. D. Mukhopadhyay (April 2025) emphasizes the bill's role in improving tax compliance through digitization and simplicity. The Government of India (September 2025) outlines the Act's modernization efforts, including clearer language and dispute reduction. Nishith Desai Associates (February 2025) analyze its implications for non-resident Indians, especially concerning virtual digital asset taxation. ClearTax Editorial Team (August 2025) summarizes the simplified tax slabs and removal of redundant provisions. Urvi Asher, CA (August 2025) comments on the balance between modern economic demands and traditional tax principles. The India Briefing (August 2025) provides an implementation guide focusing on increased rebate limits and faceless assessments. EY India (June 2025) discusses how the Act promotes transparency and faster dispute resolution. Taxmann (March 2025) highlights changes in capital gains and presumptive taxation rules. PRS India (October 2025) shares detailed legislative tracking and the Act's emphasis on taxpayer ease. Lastly, the India First Life Knowledge Center (June 2025) points to enhancements in

compliance digitalization and broader economic inclusivity. Collectively, these papers reflect a move toward a transparent, user-friendly, and digitally integrated tax framework designed for India's evolving economy

RESEARCH GAP

The research gap in the study of the Income Tax Act, 2025 lies mainly in the early stage of its implementation and the limited empirical data on how these reforms are affecting actual taxpayer behavior and government revenue collection. While numerous papers and articles provide detailed descriptions of the new law's provisions and theoretical benefits—such as simplification, enhanced transparency, and improved compliance—there is still a lack of comprehensive studies measuring the real-world impact on diverse taxpayer groups, such as small businesses, gig workers, and non-resident Indians. Additionally, there is limited exploration into how digital integration in tax administration is being perceived and adopted by taxpayers across urban and rural areas, and what challenges they face practically. Human factors like taxpayer awareness, ease of use of digital systems, and trust in the new dispute resolution mechanisms are also under-researched. Addressing these gaps with ground-level surveys, longitudinal studies, and feedback analysis can provide richer insights into the effectiveness of the Income Tax Act, 2025, and help tailor further reforms to meet the needs of all stakeholders more effectively.

III. RESEARCH METHODOLOGY

Research Design

This study adopts a quantitative, descriptive–analytical survey design to assess taxpayers' perceptions of the Income Tax Act, 2025—specifically simplicity, clarity, error reduction, digital convenience, and trust in faceless assessment/dispute resolution—versus the earlier regime. Selected items mirror the constructs used in the results section (e.g., ease of compliance, clarity, error reduction, faceless assessment, dispute resolution, and digital platform challenges).

Hypotheses

- H1: Taxpayers perceive the new Act as easier to comply with than the old Act.
- H2: Taxpayers perceive greater clarity after simplification.
- H3: Simplification is associated with fewer filing errors.
- H4: Faceless assessment improves overall filing experience.
- H5: Online dispute resolution increases perceived fairness/convenience.

Population, Sampling & Sample Size

Target population: Individual taxpayers in India who have filed/attempted to file returns under or after the rollout of the Income Tax Act, 2025 (salaried, self-employed, small business owners, retirees).

Sampling method: Non-probability purposive sampling (taxpayers familiar with e-filing/faceless systems), supplemented by convenience sampling via online distribution.

Sample size: $n = 44$ valid responses, as reflected in the reported analysis (e.g., 79.5% found compliance easier; 63.6% said faceless assessment made the process easier).

STATEMENT OF THE PROBLEM

The Indian income tax system has undergone a significant transformation with the introduction of the Income Tax Act, 2025, which aims to simplify tax structures, promote voluntary compliance, and enhance transparency through digitization and faceless assessments. The shift from the old tax regime—which offered multiple exemptions and deductions—to the new regime with lower rates but fewer exemptions has created confusion among taxpayers regarding which regime is more beneficial for them.

Despite the government's efforts to simplify the filing process and reduce human intervention through faceless assessment and online dispute resolution, many taxpayers continue to face challenges such as understanding the provisions, selecting the appropriate regime, and navigating digital tax platforms. While some individuals find the new system more transparent and efficient, others perceive it as complex and less rewarding in terms of savings and deductions.

This divergence in taxpayer experiences raises important questions about whether the new tax regime truly achieves its intended goals of simplification, clarity, and compliance ease, and how it impacts taxpayers' trust, satisfaction, and filing behavior. Therefore, it becomes necessary to study taxpayers' perceptions, experiences, and challenges under the new system and to compare them with those under the old regime.

IMPORTANCE OF THE STUDY

The Income Tax Act, 2025 is a landmark reform for India's tax system, bringing much-needed simplicity and clarity to a framework that has long been seen as complex and intimidating by taxpayers. For everyday citizens—from salaried professionals to small business owners—this reform reduces confusion by using plain language, cutting down redundant rules, and clearly outlining rights and responsibilities. It helps taxpayers better understand how their taxes are calculated and what compliance means, encouraging more people to participate honestly in the tax system.

Beyond individual convenience, the Act's importance also lies in boosting government efficiency. By embracing digital processes and clearer timelines, it minimizes the chances of disputes and speeds up tax assessments and refunds. This trust-based approach can lead to higher voluntary compliance, expanding the tax base without increasing rates, ultimately supporting government revenue for essential public services and infrastructure. In an increasingly digital and globalized economy, these reforms ensure that India's tax laws keep pace with modern realities, fostering economic growth and justice.

SCOPE OF THE STUDY

The scope of the Income Tax Act, 2025 is broad and transformative, covering all resident and non-resident taxpayers, including individuals, Hindu Undivided Families (HUFs), companies, and other entities. It streamlines income tax provisions, simplifying tax slabs and making compliance easier through standardized digital procedures. The Act's scope extends to new economic realities like virtual digital assets and broadens the definition of income while rationalizing exemptions and deductions.

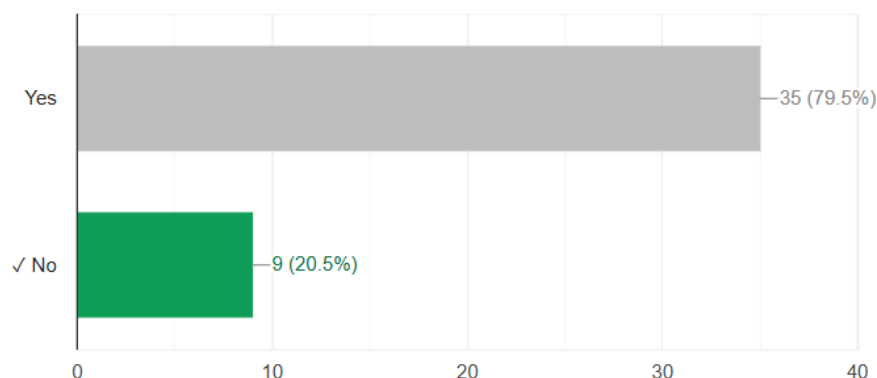
This reform also touches various taxpayer groups from regular salaried individuals, small entrepreneurs using presumptive taxation, retirees, to high-net-worth investors. Its inclusive design aims to make the tax system transparent and fair across income levels. Moreover, the scope includes a focus on easing disputes and litigation that burden taxpayers and the government alike, making resolution faster and less stressful. Overall, the Act forms the backbone of India's direct tax policy, setting the stage for a more taxpayer-friendly and economically efficient future.

OBJECTIVES OF THE STUDY

1. To analyze how the Income Tax Act, 2025 simplifies the existing tax laws by using clearer language, reducing redundancies, and making compliance easier for taxpayers of all categories.
2. To examine the impact of the Act's digital-first approach and modernization efforts, including faceless assessment and dispute resolution, on taxpayer convenience and government efficiency.
3. To evaluate how the revised tax slabs, higher rebate limits, and new provisions for emerging areas like virtual digital assets influence taxpayer behavior and revenue collection.

IV. DATA ANALYSIS

1. The new Income Tax Act is easier to comply with than the old Act.

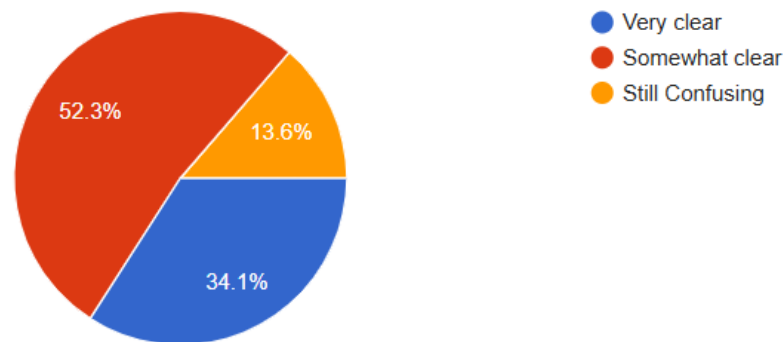


The survey question asked respondents whether they think the new Income Tax Act is easier to comply with than the old Act. Out of 44 participants, a majority of 35 respondents (79.5%) answered "Yes," indicating that they find the new

Act easier to follow. Meanwhile, 9 respondents (20.5%) answered “No,” suggesting that a smaller group still finds the old Act easier or believes the new one remains complex.

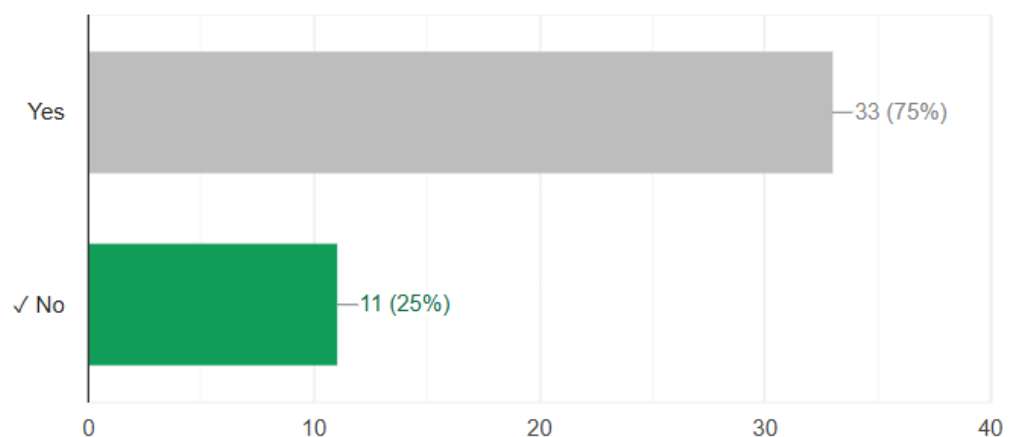
Overall, the responses show that most participants have a positive view of the new Act’s compliance process, though a notable minority still faces challenges or prefers the previous system.

2. The current tax laws are clear after the recent simplifications.



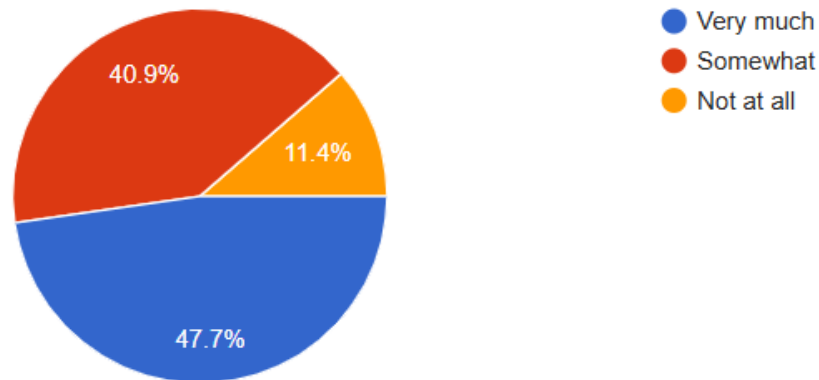
The survey results show that respondents have mixed opinions about the clarity of current tax laws after the recent simplifications. A majority of 52.3% find the laws somewhat clear, indicating partial understanding but with room for improvement. About 34.1% consider them very clear, reflecting a positive response to the simplifications. However, 13.6% still find the tax laws confusing, suggesting that further efforts may be needed to make the regulations more understandable for everyone.

3. The simplification has helped reduce errors when filing taxes.



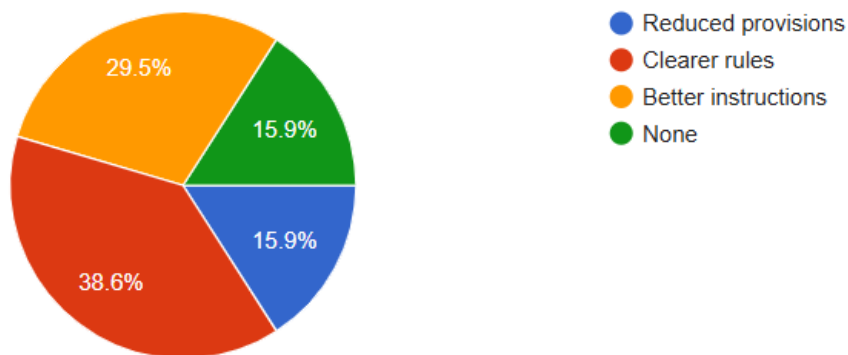
The survey results indicate that the majority of respondents believe the simplification of tax laws has helped reduce errors when filing taxes. 75% (33 respondents) answered “Yes,” showing that most people find the simplified process beneficial. However, 25% (11 respondents) said “No,” suggesting that a portion of taxpayers still experience difficulties or errors despite the simplifications. Overall, the data reflects a generally positive impact of the new tax structure on error reduction.

4. The clearer wording in the Income Tax Act, 2025 has helped taxpayers better understand what they need to do for their taxes.



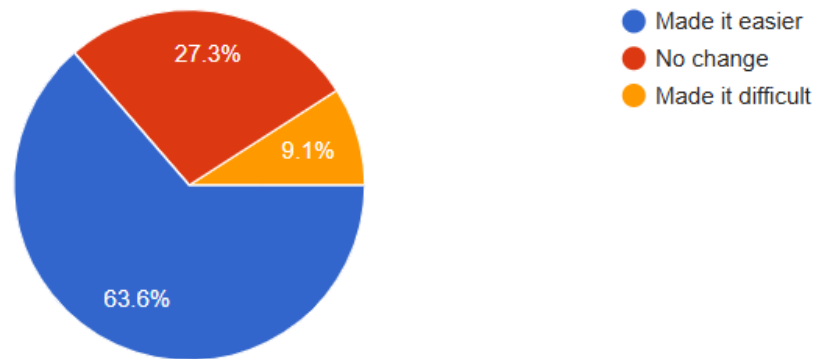
The survey results show that most respondents feel the clearer wording in the Income Tax Act, 2025 has helped them better understand their tax responsibilities. 47.7% said it helped very much, while 40.9% said it helped somewhat, indicating that the majority find the new wording beneficial. However, 11.4% of respondents said it has not helped at all, suggesting that a small portion of taxpayers still find the Act difficult to interpret. Overall, the results reflect a largely positive response to the improved clarity of the Act.

5. The specific changes in the new Act have made filing taxes easier.



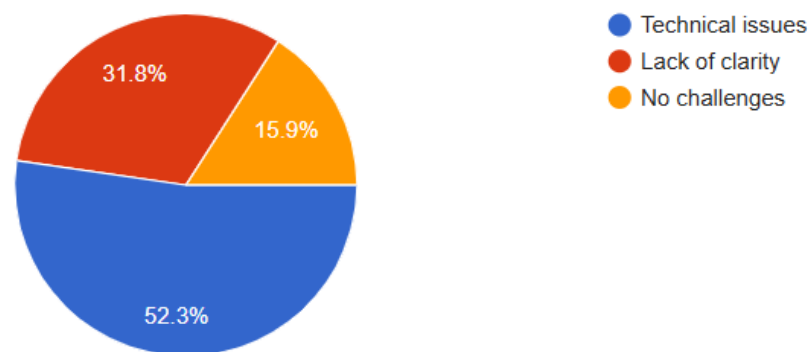
The survey results indicate that respondents found different aspects of the new Act helpful in making tax filing easier. 38.6% of participants felt that clearer rules were the most beneficial change, while 29.5% credited better instructions for simplifying the process. A smaller portion, 15.9%, pointed to reduced provisions as a helpful factor, and another 15.9% stated that none of the changes made a difference. Overall, the results suggest that clearer rules and better guidance have had the most positive impact on taxpayers.

6. The introduction of the faceless assessment system has changed the overall experience of filing or submitting tax returns.



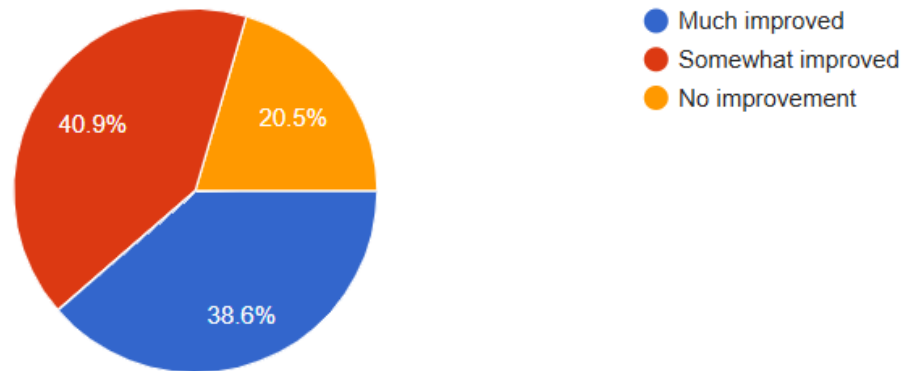
The survey results show that the introduction of the faceless assessment system has had a largely positive impact on taxpayers. 63.6% of respondents said it has made the process easier, indicating that most people find the system more convenient and efficient. 27.3% reported no change, suggesting that it hasn't significantly affected their experience. Meanwhile, 9.1% felt it has made the process more difficult, showing that a small portion still faces challenges adapting to the new system. Overall, the faceless assessment system is viewed as a beneficial reform by the majority.

7. What challenges, if any, have you faced using digital tax platforms under the new Act?



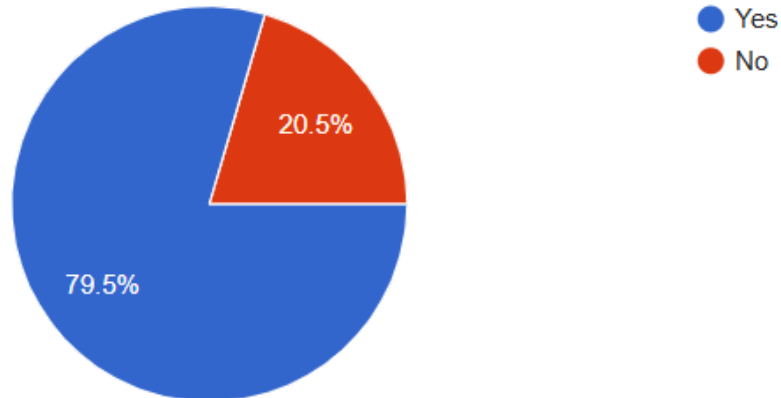
The survey results indicate that most respondents have encountered some challenges while using digital tax platforms under the new Act. 52.3% reported facing technical issues, making it the most common difficulty experienced. 31.8% mentioned a lack of clarity in understanding or using the platforms, while 15.9% stated they faced no challenges. Overall, while the majority find digital platforms useful, technical and clarity-related issues remain areas for improvement.

8. Do you think the dispute resolution system has become better since it moved online?



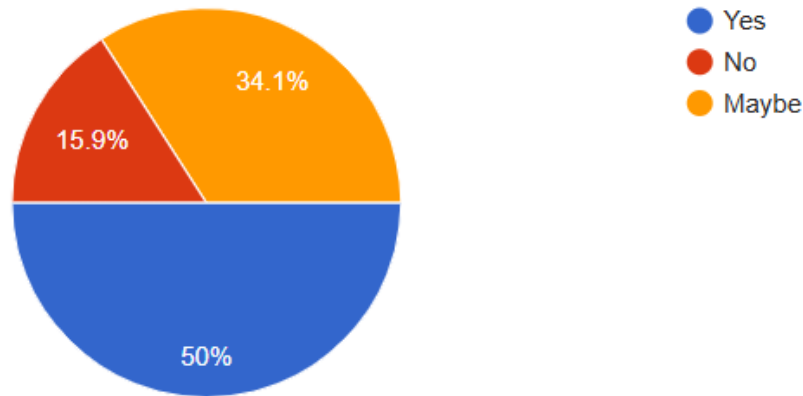
The survey results show that most respondents believe their overall tax filing experience has improved under the new Act. 40.9% said it has somewhat improved, while 38.6% felt it has much improved, indicating a generally positive impact. However, 20.5% reported no improvement, suggesting that a portion of taxpayers have not experienced noticeable benefits. Overall, the findings reflect that the majority view the new system as an improvement in their tax compliance experience.

9. Has the online tax filing system made compliance more convenient for you?



The survey results show that a significant majority of respondents, 79.5%, answered Yes, indicating a positive response toward the question asked. Only 20.5% responded No, showing that a smaller portion of participants disagreed or had a different experience. Overall, the data suggests that most respondents hold a favorable view regarding the aspect being evaluated.

10. Do you trust the digital dispute resolution to fairly address your tax issues?



The survey results indicate that half of the respondents (50%) answered Yes, showing a generally positive response toward the question. 34.1% chose Maybe, suggesting some uncertainty or mixed opinions, while 15.9% responded No, representing a smaller group with a negative view. Overall, the findings reflect that most participants have a favourable or open attitude, though a portion remains unsure.

V. FINDINGS

1. Ease of Compliance

Slightly more than three-quarters of the total respondents, 79.5%, perceive the new Income Tax Act to be easier to comply with than the old one. This would, therefore, show that at least for most taxpayers, simplification and restructuring have made the tax process more user-friendly and efficient.

2. Clarity of Tax Laws

About 52.3% of the views are "somewhat clear," while 34.1% believe they are "very clear." This indicates a noticeable improvement in clarity, though some taxpayers still find certain provisions confusing.

3. Error Reduction

About 75% agreed that simplification has helped reduce errors when filing taxes, indicating that simpler procedures and clearer forms have improved accuracy in compliance.

4. Perception via clearer wording.

"Very much" was selected by almost 47.7%, while 40.9% said "somewhat." This suggests that the new Act's plain language approach has been effective in improving taxpayer understanding.

5. Key Changes That Made Filing Easier

While the clearest advantages would be clearer rules at 38.6% and better instructions at 29.5%, it is also indicative that reforms geared at clarity and guidance have indeed paid off.

6. Faceless Assessment System

A majority of 63.6% reported that the faceless assessment system has made the process easier. This means digitalization and automation have increased convenience and decreased personal bias in assessments.

7. Challenges in Digital Platforms

Whereas 52.3% of the issues were technical in nature, 31.8% involved a lack of clarity. Thus, even though appreciation exists for the use of digital tools, improvement in technical performance and greater guidance of its users is required.

8. Improvement in Dispute Resolution

About 79.5% of the respondents feel the dispute resolution system has “much” or “somewhat” improved since going online. This reflects trust in the transparency and efficiency of digital mechanisms.

9. Convenience in Online Tax Filing

An overwhelming majority, 79.5%, reported that online tax filing has made compliance more convenient, indicating that the shift by the government toward digital systems has indeed improved the experience of the taxpayers.

10. Trust in Digital Dispute Resolution

50% of the participants are confident in the digital process of dispute resolution, while 34.1% are still hesitant. It means that trust is developing but can be increased with further improvement and dissemination.

VI. RECOMMENDATIONS

1. Improve Digital Infrastructure

The government should enhance the reliability and quickness of the digital tax platform to minimize technical malfunction and downtime to ensure that all entities can smoothly file their cases.

2. Improve Taxpayer Education and Awareness

Awareness programs, webinars, and tutorials on a regular basis will help the taxpayers understand the new provisions, their digitized filing procedures, and dispute resolution mechanisms effectively.

3. Simplify Digital Navigation

Online portals and mobile applications can be made more user-friendly by step-by-step guidance, visuals, and chatbots to guide first-time or less tech-savvy users.

4. Continuous Feedback and Improvement

The tax authorities should bring in a regular feedback mechanism wherein taxpayer experiences and suggestions are collected and utilized to further simplify the implementation of the Act.

5. Enhancing Technical Support and Helpdesk Services

There should be a dedicated helpline or live chat support that would be responsive to the technical and procedural difficulties of the taxpayers during filing and assessment.

6. Enhance Trust in Digital Dispute Resolution

Clear timelines, transparent tracking systems, and fair review mechanisms should be put in place to build taxpayer confidence in the digital dispute resolution process.

7. Focus on Rural and Small Business Inclusion

Efforts should be made to reach rural taxpayers and small business owners through simplified communication materials and regional language support.

8. Regular Review of Tax Laws

The government should ensure through periodic revisions that the tax laws reflect changing economic conditions and taxpayer needs and avoid an imbalance between simplicity and comprehensiveness.

VII. CONCLUSION

The study concludes that the Income Tax Act, 2025, has brought significant positive changes in India's taxation system by simplifying procedures, clarifying rules, and promoting digitalization. The results indicated a greater ease of compliance with the new Act expressed by the majority of the taxpayers, who valued the clearer wording, better structure, and enhanced online systems. The faceless assessment and digitalization of dispute resolution have improved transparency and convenience with reduced personal interaction and potential bias.

Yet, the research also points out a number of challenges, particularly those related to technical issues and the need for more clarity in certain digital platforms. Whereas a majority of the respondents believe the simplification reduced errors and improved their experience, a small portion still has difficulties adjusting to the new processes.

Overall, the new tax regime marks a step in the direction of a progressive, modern, and transparent tax regime that is friendly to taxpayers. If complemented with sustained development of digital infrastructure and taxpayer education, the Act has the potential to improve voluntary compliance, enhance efficiency, and boost trust between taxpayers and the government.

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