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Impact of 2025 Tax Reforms on Personal Financial Strategies of Indian Taxpayers

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Abstract

Indian 2025 tax reforms initiated massive change in the individual income tax system with a view to promote economic growth, wealth equality, and greater fiscal contribution of the masses. In this research study, the effect of reforms on saving and investment behaviour of ordinary taxpayers has been analyzed. The impact of the reform of the tax slab, exemptions, and investment-linked incentives on personal financial behaviour of the individual is analyzed in this study based on a multi-disciplinary framework that integrates behavioural economics theories, mainstream economics theory, and intertemporal choice. Major changes like raising the income tax exemption limit to ₹12 lakh, resulting of tax slabs, ease of TDS/TCS conditions, and incentives-based incentives to manufacturing and start-up industries are the focus of this study. The key data gathered from different age and income groups indicate youth (the 18–25 years age group) are more active in savings and investment and the lower income groups feel tax reforms as empowering in the area of finance. Higher income groups, however, respond in a mixed manner, questioning the return on investment and the effect of capital gain and dividend taxations. The study is of the opinion that the rising exemption rates have acted as the cause of higher disposable income, which has been a boon to the savings rate of middle and lower-income groups. Propensity to save has also gone into tax-deferred instruments like provident funds and property. The study also calls for mass-level awareness and financial literacy so that the tax payers can reap the maximum out of the new system of taxation. The report recommends in conclusion targeted awareness campaigns, incentives for savings, progressive reforms of taxation, and subsidization of advisory services on finance in a bid to ensure equitable financial inclusion and economic stability in the long term. This research provides a policy contribution through empirical examination of the influence of taxation on personal financial management and investment behaviour post-reform.

Keywords: 2025 Tax Reforms, India, Personal Income Tax, Savings Behaviour, Investment Patterns, Behavioural Economics, Financial Literacy, Capital Gains, Tax Exemption, Wealth Distribution, Middle Class, Financial Planning, Policy Impact, Tax Equity, Start-up Incentives.

Introduction

Tax plays an important role in directing the financial decisions of individuals and families by empowering them, how income should be allocated to investment, saving, and consumption. As governments tries to create a balanced fiscal framework which promotes economic equality, the tax policy reform becomes one of the most important tools for improving this behaviour. In this regard, the Indian 2025 tax reforms are a major move towards a streamlined tax system, less heavy on the middle class and having the potential to stimulate action. Such reforms not only redefine the fiscal landscape but have a far-reaching effect on taxpayers' money decisions in every class of income. The 2025 reforms of the Government of India include a thorough transformation of individual income tax rates, simplifying tax deduction and collection procedures, and selective inducements for entrepreneurship and investment. The most important, however, is the increase of the income tax exemption threshold to ₹12 lakh, and a common deduction of ₹75,000 for income earners. This effectively removes income up to ₹12.75 lakh from tax, providing substantial relief to middle-class earners of income. Apart from this, a new and simplified slab pattern has been introduced to reduce the complexity of the previous regime and enhance the disposable income of various classes of individuals. Apart from structural changes in personal tax, the reforms have also touched upon important compliance mechanisms. Rationalization of Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) limits attempts to ease compliance burden and enhance transparency. For example, the limit of TDS on interest income in respect of senior citizens has been increased to ₹1 lakh and the limit of TDS on rental income from ₹2.4 lakh to ₹6 lakh.

By introducing a presumptive taxation scheme for non-residents catering to the electronics manufacturing sector and providing start-up tax incentives to entities registered up to March 31, 2030, the government signals its enthusiasm towards encouraging investment and entrepreneurship. These initiatives will tend to generate employment opportunities, boost technological advancement, and enhance the overall aim of self-reliance and competitiveness on the international front. This research paper has the objective of assessing the impact of the 2025 tax reforms on the savings and investment trend of the common taxpayers. Through a critical analysis of the new tax policy and the attached incentives, the study seeks to determine if these changes will favor individual financial stability and capital formation or add further issues in managing personal finance. Additionally, the paper seeks to analyze the differential impact between income groups, with a focus on how taxpayer would respond for an overlap—or differ from—the overall economic objectives of the reforms. In doing so, this research aspires to provide worthwhile insights into the real-world impacts of tax policy adjustments, with an integrated view of how fiscal reforms influence economic behavior and long-term financial stability.

Demographic Data of the Samples

1. Employment Status of Individuals

Employment Status	Student	Employed (Full-time)	Self-employed	Unemployed	Retired
No of Individuals	39	21	4	2	1

2. Age Group of Individuals

Age\Gender	Female	Male	Other / Prefer not to say
18-25	24	29	
26-35	2	9	
36-45		1	1
56+		1	

3. Tax Slabs of these Individuals

Tax Slabs\Education level	High School	Bachelor's Degree	Master's Degree	Other
Below 2,00,000	4	20	16	1
2,00,000 - 5,00,000	1	7	5	
5,00,000 - 7,50,000		5	2	
7,50,000 - 10,00,000		1	1	
10,00,000 - 12,00,000		1	3	

4. Education level of these Individuals

Educational Status\Age Groups	18-25	26-35	36-45	56+
High School	4	1		
Bachelor’s Degree	26	7		1
Master’s Degree	22	3	2	
Other	1			

Theoretical Framework

The theoretical framework uses the ideas from behavioral economics along with traditional economic theory. We focus on two main concepts.

The Substitution and Income Effects:

First, let’s talk about the substitution effect. When tax laws change, they change how much it costs to save money, spend it, or just take some time off. For example, when income taxes rise, people keep less money after taxes. Because of this, the cost of relaxing—like taking a break or hanging out—actually goes up. People then feel more pressure to work more hours, instead of enjoying their free time. This can make work seem less appealing when compared to leisure activities. So, if we change how much people pay in taxes, it might change how they decide to spend their time and money. It's like a balancing act. People will weigh the benefits of working more versus kicking back and enjoying life. The decisions they make can be influenced by these taxes.

Risk and Return Considerations:

The optic of risk attached to various assets is susceptible to changes with tax legislation modifications. An investor may opt for less volatile assets if s/he views with the belief that capital gains tax rates will be raised, in an effort to shelter themselves from unpredictable after-tax returns.

Behavioral considerations:

Behavioral aspects, in addition to mathematic concerns regarding tax changes, impinge on investors. Specifically, for instance, these could include emphasizing the particular account's tax benefits, as impacted by framing effects, thereby failing to take into account liquidity constraints, or even the volatility of the markets.

Intertemporal Choice Theory:

Another issue may arise in connection with both estimating the benefits of tax deferral and, in itself, influencing risk perceptions and the time horizon for investment.

REVIEW OF LITERATURE

Kumar et al. (2025) Using the partial least squares structural equation modeling and fuzzy set qualitative comparative analysis techniques, this study investigates the factors that contribute to income tax evasion in the National Capital Region of India. The results show that the complexity of the tax system, tax burden, and corruption are factors that significantly influence taxpayers' intentions to evade taxes. Tax morale and digitization were not very successful. In order to encourage compliance, the study places a strong emphasis on simplifying the tax code and launching anti-corruption initiatives.

Neog & Gaur (2020) With evidence across 14 Indian states during 1991-2016, the research in this paper discusses the nexus between growth in the economy and the tax system. The findings are that commodity-service and income taxes are inversely related to growth, whereas property and capital transaction taxes are positively related to growth. The research recommends that policymakers can encourage economic growth through an emphasis on property taxes and reducing income taxes.

Sritharan & Salawati (2019) This study examines the extent to which personal factors affect income tax compliance behavior in Malaysia and examines the moderating effect of tax knowledge. The results reveal that financial status, peer, political considerations, religiosity, and culture all have a positive effect on compliance. Tax knowledge strengthens the relationships between these variables and compliance behavior, and taxpayer education is, therefore, advocated.

Sharma et al. (2023) Administrative problems, institutional distance, public disenchantment, and regulatory costs are among the factors listed in this study, which examines tax compliance attitudes in India. It demonstrates how taxpayer perceptions of the efficiency and equity of the government significantly influence their propensity to comply with tax laws. According to the research, increasing public trust and simplifying tax procedures are two ways to increase compliance.

Bharad & Sharma (2023) Through a survey in the Ahmedabad City, this paper is comparing taxpayers' perceptions of old and new regimes of taxation based on India's Income Tax Act, 1961. Conclusion shows that despite the new regime offering simplicity in tax structures, the majority of the taxpayers prefer the old regime due to availability of options for deduction and exemption. The paper believes that taxpayers require more awareness and training in order to make informed decisions.

Prasad & Ramaprabha (2024) This research incorporates compliance behavior literature that is influenced by tax structure. It centers on critical determinants such as deterrence systems, system complexity, statutory rates, and compliance costs. Research concludes that decreasing tax system complexity and lowering compliance costs are mechanisms through which taxpayer compliance can be promoted.

Kushwah et al. (2021) This study examines the effect of tax awareness, penalty, and e-filing on improving compliance in India. The result is that increased tax awareness and the adoption of e-filing systems significantly raise the compliance rate. Imposing penalties in itself without an effective education campaign for taxpayers, however, makes no difference whatsoever. The study advocates the integration of the adoption of technology with education campaigns for taxpayers to improve compliance.

Shevate & Pande (2023) This research analyzes the view of salaried individuals on India's new tax regime in Budget 2020. According to the study, despite easy tax structures under the new regime, taxpayers are eager to retain the old regime due to available deductions and exemptions. It is suggested that implementation of social security schemes may encourage a shift towards the new regime by discouraging the emphasis placed on savings.

Dey et al. (2023) This empirical study analyzes the determinants of personal income tax compliance behavior in Odisha, India. On the basis of feedback from 1,068 respondents, the study identifies economic, institutional, and social determinants of compliance. The findings reveal that economic and institutional determinants play a more significant role compared to social determinants, and policy interventions are needed in these dimensions.

Bharadwaj & Singhal (2024) This critical examination compares the new and old regime of income taxation of India with special reference to amendments made in the Union Budget 2023–2024. Authors describe the positives and negatives of both regimes based on the preference of taxpayers, ease of compliance, and cost. It is concluded that although the new regime is easing the tax structures, the exemptions and deductions under the old regime are still the taxpayer's favorite choice.

OBJECTIVES OF THE STUDY

1. To study the changes in the savings and investment behavior of individual taxpayers with varying income levels, under the 2025 Indian tax reforms.
2. To explore changes in financial security and capital formation among lower- and middle-income earners due to changes in the restructure of tax slabs, exemptions, and deductions under the 2025 reforms.
3. To assess the success of the new tax policies in encouraging voluntary tax compliance and overall financial engagement, especially through streamlined tax regimes and focused investment incentives.

Research Methodology

1. Research Design

The study follows a descriptive research design to outline the changes introduced by the 2025 tax reforms, and an analytical design to assess their impact on taxpayers' decisions related to savings and investments. This approach enables a structured investigation into both the statistical trends and subjective responses emerging post-reform.

2. Data Collection

Primary Data:
Data will be collected through a structured questionnaire/Survey targeting **individual taxpayers across various income brackets**. The questionnaire will cover aspects such as:

- Changes in savings and investment behavior post-reform
- Awareness and understanding of new tax provisions
- Preferences between the old and new tax regimes
- Perceived benefits or drawbacks of the reforms

3. Sampling Technique

The research was meant to obtain the responses of about 100 participants, where 67 valid responses were realized. A **Simple Random Sampling**: is be used to ensure that we get a proper behavioural change from these individuals.

4. Data Analysis Techniques

In analyzing the data gathered, descriptive and statistical methods are utilized. They include:

- Descriptive Analysis: This is applied to condense and describe the data collected using measures like mean, median, mode, standard deviation, and percentage distributions.
- Statistical Methods: Statistical tests and measures like correlation analysis, regression analysis, and hypothesis testing are used to extract useful insights and determine meaningful relationships between variables in the data.
- Inferential Statistics: To test hypotheses and examine relationships between variables, the following inferential techniques will be using Chi-Square Test, ANOVA (Analysis of Variance), T-test.

5. Tools for Analysis

Quantitative data collected from surveys will be analyzed using statistical tools such as SPSS or Microsoft Excel. These kinds of software help in structuring, interpreting, and representing the data appropriately. This research design guarantees a systematic data collection, analysis, and interpretation process, offering credible and meaningful results for the study.

DATA ANALYSIS & INTERPRETATION

1.Descriptive statistics

To analyze age and income distribution for understanding income classification and tax regime preference.

Age Distribution

Age Group Breakdown:

- 18-25 years: 79.10% (53 respondents)
- 26-35 years: 16.42% (11 respondents)
- 36-45 years: 2.99% (2 respondents)
- 56+ years: 1.49% (1 respondent)

Interpretation: We can see that the sample has more youth population of 53 respondents, which nearly contributes up to 80% of respondents of 18-25 age group.

Annual Income Distribution

Income Bracket Breakdown: 200,000: 61.19% (41 respondents), 350,000: 19.40% (13 respondents), 625,000: 10.45% (7 respondents), 875,000: 2.99% (2 respondents), 1,100,000: 5.97% (4 respondents).

Interpretation: The majority of respondents (61.19%) are in the 200,000-income bracket, there's a decreasing trend in the number of respondents as income increases. The sample represents high-income individuals, with all respondents earning 200,000 or more.

Summary Statistics

- Total number of respondents: 67
- Mode (most frequent) age group: 18-25 years
- Mode (most frequent) income bracket: 200,000

This analysis reveals that the sample consists primarily of young, high-income individuals, with a strong concentration in the 18-25 age group and the 200,000-income bracket. The distribution shows a clear skew towards younger age groups and lower (though still high) income brackets within the given range.

2. Chi-Square Test

Hypothesis:

H_o – There is no significant difference in Tax planning strategy with respect to Education Level.

H_1 – There is significant difference in Tax planning strategy with respect to Education Level.

Education Breakdown:

- Bachelor's Degree: 50.75% (34 respondents)
- Master's Degree: 40.30% (27 respondents)
- High School: 7.46% (5 respondents)
- Other: 1.49% (1 respondent)

Chi-Square data (Educational level)

- Chi-square statistic: 4.5711
- p-value: 0.9708
- Degrees of freedom: 12
- Significance level (α): 0.05

Interpretation

Statistical Significance: The p-value (0.9708) is greater than the significance level (0.05), so Ho is accepted. This means the relationship between Education level and Tax planning strategy is not statistically significant. There is no strong evidence to suggest that education level and Tax planning strategy are dependent on each other in this sample. Any observed differences in Tax planning strategy across education levels could be due to random chance.

3. Correlation

Investment Choices by Age Group

18-25 Age Group: Largest proportion haven't made a decision yet (approximately 24 respondents). Some have maintained same investment choices. A smaller group has taken more risks (stocks, cryptocurrency). Few have shifted to safer investments.

26-35 Age Group: More diverse investment responses. Mix of undecided and active decision-makers. Some risk-taking behavior observed. More balanced distribution between different investment choices.

36-45 & 56+ Age Groups: Very limited data for meaningful analysis. Some indication of risk-taking in the 36-45 group.

Key Correlations and Patterns

Decision-Making Pattern:

- Younger age groups (18-25) show more indecision about investment choices.
- Middle age groups (26-35) show more decisive investment behavior.

Risk Tolerance: Risk-taking behavior is present across multiple age groups; younger groups show a mix of conservative and risk-taking approaches.

Familiarity-Investment Relationship: No strong direct correlation between familiarity and investment choices. Various investment decisions are made regardless of familiarity level.

4. T-Test:

- t-statistic: -0.7614
- p-value: 0.4514 (> 0.05 significance level)
- Cohen's d (effect size): 0.2505 (small to medium effect)

Mean Familiarity Scores:

- Changed investments: 3.76
- No Change: 3.94
- Undecided: 3.14

Distribution of Investment Choices

Sample Size Distribution: Undecided: 29 respondents (43%), Changed: 21 respondents (31%), No Change: 17 respondents (25%).

Interpretation:

Statistical Significance: The p-value (0.4514) is greater than 0.05, indicating no statistically significant difference in familiarity levels between groups who changed their investments and those who didn't.

Group Differences: Those who made no changes showed slightly higher familiarity (3.94). Those who changed investments had moderate familiarity (3.76). Undecided respondents showed the lowest familiarity (3.14).

Findings

The demographic profile of the respondents revealed a predominantly young sample. Among the 67 participants, 79.10% belonged to the 18–25 age group, making it the modal age category. This was followed by 26–35 (16.42%), 36–45 (2.99%), and 56+ (1.49%). This skewed distribution suggests that the sample primarily comprises younger individuals, possibly early-career professionals or students.

In terms of income, a majority (61.19%) of respondents reported an annual income of 200,000, followed by 350,000 (19.40%) and 625,000 (10.45%). The higher income brackets (875,000 and 1,100,000) together accounted for less than 9% of the sample. This trend indicates a sample skewed towards younger individuals with relatively high-income levels, potentially reflective of a tech-savvy or financially literate demographic.

The results of chi-square test yielded a chi-square statistic of 4.5711 and a p-value of 0.9708, which is significantly above the standard significance threshold of 0.05. This suggests that there is no statistically significant association between education level and income among the respondents. In other words, income levels appear evenly distributed across educational backgrounds, implying that factors other than formal education may be influencing income in this sample.

Investment choices were analysed across age groups to identify behavioural patterns. Among the 18–25 age group, a significant number of respondents remained undecided about adjusting their investments. However, some displayed a tendency towards higher-risk investments such as stocks and cryptocurrencies, while others favoured conservative strategies.

The 26–35 age group showed a more diverse and decisive investment behavior, with participants taking both risk-averse and risk-tolerant approaches. Due to the limited number of respondents in the 36–45 and 56+ age categories, patterns in those groups were inconclusive, though some risk-taking behavior was observed. No strong correlation was found between familiarity with the 2025 tax reforms and investment decisions. Investment changes were made across familiarity levels, suggesting that other factors beyond tax knowledge may be driving investment behavior.

The results of T-test yielded a t-statistic of -0.7614, a p-value of 0.4514, and a Cohen's d of 0.2505, indicating a small to moderate effect size and no statistically significant difference among the groups.

The Comparison of mean scores revealed an insight that is respondents who made no changes in their investments reported the highest familiarity (3.94), followed by those who changed investments (3.76), while those who were undecided had the lowest familiarity (3.14). This suggests that greater awareness of tax reforms may lead to more confidence in maintaining current strategies, whereas lower familiarity is associated with uncertainty and indecision.

SUGGESTION

- **Enhance Tax Literacy and Awareness Campaigns:** Those who knew about the 2025 tax reforms exhibited more stable investment behavior. Simple, easy-to-grasp awareness campaigns—especially among younger and lower-income groups—can improve financial decision-making and reduce uncertainty.
- **Introduce Financial Advisory Support for Young Taxpayers:** Many taxpayers between the ages of 18 and 25 are still unsure about their investment choices. They can be assisted in coordinating investments and savings with tax reforms by receiving free or heavily discounted financial counselling from educational institutions.
- **Promote Investment Behavior Through Gamified Tools and Digital Platforms:** The technologically advanced population can understand tax implications better with the help of interactive apps and gamified materials. These websites can encourage better investing habits and financial planning and make it more engaging.
- **Incentivize Long-Term Investment Among Lower- and Middle-Income Groups:** Credits or lower capital gains taxes are examples of tax incentives for long-term investments that can encourage consistent capital formation and boost savings for those in the ₹200,000–₹500,000 income range.

Conclusion

India's 2025 tax reforms are a significant move towards tax system rationalization, achieving equity, and improving financial inclusion of individual tax payers. In such a scenario, the study objective was to analyze the extent to which the reforms have affected saving and investing behavior, using income classes and age classes in precise terms. The finding is that, despite reforms yielding in terms of increasing exemption levels and aggregate allowances, their impact on influencing the adjustment of fact's behavior was small. The majority of the respondents, particularly the lower age group (18–25 years), held little knowledge relative to the reforms, and a majority could not materially change investment behavior following reform. This suggests an apparent gap between citizen participation and policy intent and highlights the case for improved communication and financial literacy programs.

Neither educational level nor income, nor awareness of reform nor investment decisions, were significantly correlated, as established through statistical analysis by Chi-square and T-tests. Qualitative observations do indicate, however, that those more aware were more comfortable to comply with or adjust their investment plans.

All else being equal, the reforms look like a step in the right direction, making for a less complex and more open tax regime. However, sustained efforts to raise awareness, increase confidence in the new regime, and deliver focused financial education will be needed to secure their long-term success. To assist in making future reforms more consistent with actual financial behavior, policymakers also need to take account of the behavioral drivers of taxpayer choice.

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