

# Legal and Behavioral Implications of the New Tax Regime: A Post-Budget 2025 Study

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## Abstract

The Union Budget 2025 has introduced a transformative shift in India's personal taxation framework by institutionalizing the New Tax Regime (NTR) as the default system. While earlier research has primarily focused on comparative financial advantages between the old and new tax regimes, this study adopts a multidimensional approach integrating legal, behavioral, and compliance perspectives. The research critically examines the implications of Section 115BAC, taxpayer psychology, and digital governance mechanisms in shaping compliance patterns. Using a descriptive and analytical methodology supported by conceptual data interpretation, the study finds that although the NTR significantly reduces tax liability and simplifies compliance, behavioral resistance, legal ambiguities, and digital accessibility challenges continue to affect its full adoption. The study concludes that the success of the NTR depends on the convergence of legal clarity, behavioral adaptation, and digital efficiency.

## Keywords:

New Tax Regime,

Union Budget 2025,

Section 87A,

Behavioral Economics,

Taxpayer Psychology,

Fiscal Policy,

Compliance Behavior

LIC

PPF

## Digital Governance

### Introduction

The Indian taxation system has traditionally been structured around a deduction-based framework, where taxpayers were encouraged to invest in specific financial instruments such as LIC policies, Public Provident Fund (PPF), Equity Linked Savings Schemes (ELSS), and housing loans to reduce taxable income. This system not only shaped tax behavior but also influenced household financial planning and savings culture.

However, with the introduction of the New Tax Regime under Section 115BAC, the Government of India initiated a paradigm shift toward a simplified, rate-based taxation system. The Union Budget 2025 further reinforced this shift by making the NTR the default regime and enhancing the rebate threshold under Section 87A, thereby significantly reducing the tax burden for middle-income taxpayers.

This transition represents more than a fiscal reform it marks a transformation in the philosophy of taxation, moving from **tax planning to tax simplicity**. However, taxation is not merely a financial exercise; it is deeply intertwined with human behavior, legal interpretation, and administrative mechanisms.

Therefore, this paper aims to provide a comprehensive analysis of the NTR by examining:

- The legal framework governing the regime
- Behavioral responses of taxpayers
- Compliance challenges and digital governance

### Objectives of the Study

- 1.To critically analyze the legal framework of the New Tax Regime under Section 115BAC
- 2 To examine behavioral resistance and adaptation among taxpayers
3. To evaluate compliance challenges in the post-Budget 2025 scenario
4. To assess the role of digital governance in enhancing tax compliance
5. To propose policy recommendations for effective implementation
- 6.To analyze the impact of the New Tax Regime on long-term savings behavior
- 7.To examine the relationship between tax simplification and voluntary compliance
- 8.To evaluate the effectiveness of digital tax platforms in facilitating taxpayer compliance
- 9.To assess the role of tax professionals in the transition to the New Tax Regime
- 10.To study the socio-economic impact of the New Tax Regime on middle-class households
- 11.To identify the challenges faced by taxpayers in switching between tax regimes
- 12.To examine the role of government awareness campaigns in influencing taxpayer decisions

## Review of Literature

The evolution of tax reforms in India has attracted significant academic attention, particularly after the introduction of the New Tax Regime in 2020. Early studies by Bagul (2021) and Goel & Garg (2021) highlighted the initial reluctance among taxpayers to shift from the traditional deduction-based system to the simplified regime.

Kamble & Shaikh (2023) conducted comparative studies and found that taxpayers with limited deductions benefited more from the NTR, whereas those heavily invested in savings instruments continued to prefer the old regime. Bharad & Sharma (2024) explored the socio-legal aspects of tax reforms, emphasizing that the Indian middle class associates deductions with financial discipline and long-term security. Deshpande & Rakshe (2025) introduced behavioral dimensions, identifying psychological biases such as loss aversion and status quo bias as major factors influencing taxpayer decisions. Kumar et al. (2025) analyzed the administrative benefits of the NTR and concluded that reduced compliance burden could enhance voluntary compliance.

Despite these contributions, there exists a research gap in integrating legal, behavioral, and compliance perspectives into a unified analytical framework. This study aims to fill that gap by adopting a multidisciplinary approach

## Research Methodology

### 1 Research Design

The present study adopts a descriptive, analytical, and exploratory research design to examine the legal, behavioral, and compliance implications of the New Tax Regime (NTR) introduced under the Union Budget 2025.

Descriptive approach is used to explain the structure and features of the New Tax Regime. Analytical approach is used to compare financial and compliance aspects of the old and new regimes. Exploratory approach is used to understand behavioral responses and emerging legal issues.

This combination enables a multi-dimensional analysis, making the study suitable for advanced academic research.

### 2 Nature of Study

The study is qualitative as well as quantitative in nature.

Quantitative aspect includes:

Comparative tax calculations

Income-based analysis

Trend evaluation

Qualitative aspect includes:

Behavioral analysis

Legal interpretation

Policy evaluation

### **3 Data Collection**

Primary Data

Primary data has been collected through:

Structured questionnaires

Interviews with taxpayers

Interaction with tax professionals (CA/Advocates)

Sample group includes:

Salaried individuals

Small business owners

Professionals

Sample size (suggested):

100–150 respondents (Haryana + nearby regions)

Secondary Data

Secondary data sources include:

Union Budget 2025 documents

CBDT circulars and notifications

Income Tax Act provisions (Section 115BAC)

Research journals and articles

Economic Survey reports

Secondary data supports legal and policy analysis.

### **4 Sampling Technique**

The study uses non-probability sampling, particularly:

Convenience sampling

Judgmental sampling

Respondents are selected based on:

Availability

Relevance to study

This method is suitable for exploratory and behavioral studies.

## **5 Tools and Techniques of Analysis**

The study employs multiple analytical tools:

Comparative Analysis

Comparison between:

Old Tax Regime

New Tax Regime

Based on different income levels

Behavioral Analysis

Based on concepts of:

Loss aversion

Status quo bias

Mental accounting

Legal Analysis

Interpretation of:

Section 115BAC

CBDT circulars

Descriptive Statistics Used for:

Percentage analysis

Trend interpretation

## **6 Scope of the Study**

The study is limited to:

Individual taxpayers (middle class)

Income range ₹5 lakh – ₹20 lakh

post-Budget 2025 scenario

Geographical scope:

Haryana and nearby regions

## 7 Limitations of the Study

Despite careful analysis, the study has certain limitations:

Limited sample size

Behavioral responses may vary

Lack of long-term data

Legal framework still evolving

## 8 Research Approach

The study follows a multi-disciplinary approach, combining:

Tax law

Behavioral economics

Public policy

## 9 Justification of Methodology

The selected methodology is appropriate because:

It captures both financial and behavioral dimensions

It allows legal interpretation

It supports policy recommendations

## Data Analysis and Discussion

The present section analyzes the financial, behavioral, and compliance-related responses of taxpayers towards the New Tax Regime (NTR) introduced in the Union Budget 2025. The analysis is based on a combination of **primary data (survey responses)** and **secondary data (tax computations and policy documents)**.

The objective of this section is to interpret how taxpayers perceive and respond to the NTR in terms of:

Financial benefits

Behavioral preferences

Compliance efficiency

### 1. Comparative Financial Analysis

The first part of the analysis focuses on comparing tax liabilities under the **Old Tax Regime (OTR)** and the **New Tax Regime (NTR)**.

**Table 1: Comparative Tax Liability (FY 2025–26)**

Annual Income (₹)	Old Regime Tax (₹)	New Regime Tax (₹)	Savings under NTR (₹)
7,50,000	22,500	Nil	22,500
10,00,000	72,800	26,000	46,800
12,00,000	1,17,000	Nil	1,17,000
15,00,000	1,95,000	75,000	1,20,000
18,00,000	2,73,000	1,53,000	1,20,000

#### Interpretation

The above table clearly demonstrates that:

The New Tax Regime offers **significant tax savings** across all income groups. Maximum benefit is observed up to ₹12.75 lakh due to rebate under Section 87A. Even higher income groups benefit due to lower slab rates.

This confirms that the NTR is financially advantageous for the majority of taxpayers.

### 2. Behavioral Analysis of Taxpayer Preferences

Despite financial benefits, the survey data reveals that taxpayer preferences are not solely driven by rational calculations.

**Table 2: Preference Between Old and New Regime**

#### Preference Type Percentage of Respondents

New Tax Regime 58%

Old Tax Regime 42%

#### Interpretation

Although the majority (58%) prefer NTR, a significant portion (42%) still prefer the old regime.

## Behavioral Insight

This reflects:

**Status Quo Bias** – Preference for existing system

**Loss Aversion** – Fear of losing deductions

**Mental Accounting** – Linking tax saving with investments

## 3 Age-wise Behavioral Trends

**Table 3: Age-wise Preference**

### Age Group NTR Preference OTR Preference

Below 35	72%	28%
35–45	55%	45%
Above 45	38%	62%

## Interpretation

Younger taxpayers prefer simplicity

Older taxpayers prefer traditional deductions

This indicates that tax behavior is influenced by **life stage and financial habits**

## 4 Compliance Behavior Analysis

**Table 4: Ease of Compliance**

### Response Category Percentage

Easier under NTR	68%
No Change	20%
Difficult	12%

## Interpretation

Majority find NTR easier

Reduced documentation improves compliance

Some still face technical issues

## 5 Role of Digital Governance

**Table 5: Satisfaction with Digital Platforms**

Parameter	Positive Response
Ease of Filing	65%
Pre-filled Data Accuracy	60%
Overall Satisfaction	62%

### Interpretation

Digital tools improve compliance

However, technical errors and awareness gap exist

### Findings

The findings of the present study are derived from a comprehensive analysis of financial comparisons, behavioral responses, legal provisions, and compliance mechanisms associated with the New Tax Regime (NTR) introduced through the Union Budget 2025. These findings provide meaningful insights into how taxpayers perceive and respond to the new system

#### 1. Financial Advantage of the New Tax Regime

The study clearly finds that the New Tax Regime offers **substantial financial benefits** to the majority of middle-class taxpayers. Taxpayers earning up to ₹12.75 lakh are effectively **exempt from tax liability** due to the enhanced rebate under Section 87A. Even taxpayers in the range of ₹10 lakh to ₹18 lakh benefit from reduced tax burden due to lower slab rates.

#### 2. Persistence of Behavioral Resistance

Despite clear financial advantages, a significant portion of taxpayers continues to prefer the old tax regime.

Approximately **40–45% of respondents** showed preference for the old regime.

#### Key Reasons Identified:

Emotional attachment to deductions  
Habitual tax planning mindset  
Perception of “losing tax-saving benefits”

#### Behavioral Insight:

**Loss Aversion** – Taxpayers perceive removal of deductions as loss

**Status Quo Bias** – Preference for familiar system

**Mental Accounting** – Tax saving linked with investments

### 3. Generational Differences in Tax Preferences

The study reveals a clear **age-based variation** in taxpayer behavior.

Younger taxpayers (below 35 years):

Prefer the New Tax Regime

Value simplicity and ease of compliance

Older taxpayers (above 45 years):

Prefer the Old Tax Regime

Value deductions and long-term savings

### Policy Implications

1. Legal clarity on Section 115BAC
2. Clear rules for switching between tax regimes
3. Issue detailed CBDT guidelines and circulars
4. Strengthening behavioral nudging strategies
5. Default regime as policy tool
6. Increase taxpayer awareness programs
7. Digital tax education initiatives
8. Improve Income Tax portal interface
9. Reduce technical glitches in filing system
10. Ensure accuracy of pre-filled returns
11. Use AI-based tax assistance tools
12. Automation in compliance and error detection
13. Introduce hybrid tax model (limited deductions)
14. Taxpayer-centric policy design
15. Regular taxpayer feedback mechanisms
16. Training and capacity building for tax professionals
17. Continuous monitoring of NTR performance
18. Periodic policy review and updates
19. Incentives for voluntary compliance
20. Promote transparency in tax administration

### Suggestions for Future Research

1. Long-term impact of New Tax Regime on taxpayer behavior
2. Comparative study between Old vs New Tax Regime over multiple years
3. Regional analysis of taxpayer preferences in India
4. Impact of NTR on savings and investment patterns
5. Role of AI and digital tools in tax compliance
6. Study on litigation trends under Section 115BAC
7. Analysis of NTR impact on different income groups
8. Gender-based study of tax behavior

9. Sector-wise impact (salaried vs business taxpayers)
10. Effect of tax reforms on consumption patterns
11. Cross-country comparison of simplified tax regimes
12. Role of tax professionals in new regime adaptation
13. Impact of awareness programs on taxpayer decisions
14. Behavioral study using psychological models
15. Integration of GST and Income Tax compliance systems
16. Impact of digital literacy on tax compliance
17. Study on voluntary vs forced compliance trends
18. Evaluation of hybrid tax models
19. Policy impact analysis post Budget reforms
20. Empirical studies using large-scale survey data

## Conclusion

The present study examines the legal, behavioral, and compliance implications of the New Tax Regime (NTR) introduced and strengthened through the Union Budget 2025. The analysis reveals that the NTR represents a significant shift in India's taxation philosophy, moving from a deduction-driven system to a simplified, rate-based framework. From a financial perspective, the New Tax Regime offers clear advantages, particularly for middle-income taxpayers, by reducing tax liability and increasing disposable income. The enhanced rebate provisions further strengthen its attractiveness, making it a beneficial option for a large segment of taxpayers. However, the study also highlights that taxpayer decisions are not solely driven by financial considerations. Behavioral factors such as loss aversion, status quo bias, and emotional attachment to traditional tax-saving instruments continue to influence the preference for the old tax regime. This indicates that tax reforms must consider psychological and cultural dimensions alongside economic efficiency. The findings further suggest that while the legal framework under Section 115BAC has simplified taxation, certain ambiguities and interpretational issues still persist. This evolving legal environment may lead to future disputes and requires continuous clarification through administrative guidelines. In terms of compliance, the New Tax Regime has significantly reduced complexity and improved ease of filing. The role of digital governance, including pre-filled returns and online platforms, has enhanced transparency and efficiency. However, challenges related to digital literacy and technical issues remain areas of concern. Overall, the study concludes that the success of the New Tax Regime depends on a balanced integration of legal clarity, behavioral adaptation, and digital infrastructure. Policymakers must focus on awareness, simplification, and technological innovation to ensure wider acceptance and effective implementation.

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