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Comparative Study On Change In ITR With Respect To Old Regime And New Regime

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Abstract

The primary way that the government raises money is through taxes, which it then uses for such things as infrastructure development, healthcare, education, and other social programmes for its people. This paper aims to study the ITR norms of old regime till 2020 and to study the norms in 2021 regime. Based on the said study pros and cons of old and new regime is identified. The researcher has thus tried to put forth various opinions related to the ITR norms. Each system has advantages and disadvantages of its own. The study revealed that previous system offered a variety of exclusions and deductions under various categories; however, some of them required people to make investments that would reduce their tax liability, which helped develop a disciplined investing habit. On the other hand, the new system gives staff more freedom and aims to simplify the procedure.

Keywords: ITR, 2021 regime, Government, Taxes.

1. Introduction

Taxes are the main source of revenue collection for the government so that the government may utilize this revenue for development of infrastructure, providing healthcare, education, and other governments welfare schemes for its citizen. Every country needs to have infrastructure and facilities for its citizens which should match their living standards. This needs a large amount of money to make advanced infrastructure and provide better facilities to its citizens, therefore, democratic countries to raise the amount so required. Hence, it's the need of the hour for laymen to understand the concept of tax. Direct taxes in India play an important role in attaining this equality. These are designed with progressiveness; they are beneficial in reducing income inequalities. The government levies higher taxes on taxpayers who can afford them and uses this money to help the poor, which reduces the ill-effects of income inequalities. Productive type of tax is productive and elastic. The revenue earned through such taxes automatically increases or decreases depending on the changes in the national economy system of the country. Thus, we should pay income tax to build our nation, the revenues collected from income tax are directly spent on the national projects of development. It uses to construct new roads, highways, flyovers, and railways etc. it is also used to buy new defence equipment and new defence research for the safety of our country.

2. Objective

- To study the ITR norms of old regime till 2020.
- To study the ITR norms of new regime with respect to 2021.
- To study the pros and cons of new scheme and old scheme.

3. Theoretical Background of ITR?

It acts as legal document income tax return holds immense legal value. It is recorded with the government. It acts as legal proof in two ways,

a. Identify Proof: the return the at you fill can be used as identify proof in various scenarios such as while applying for an AADHAR card, or any other document. The government accept it as a proof of address as well.
b. Income Proof: as discussed, the ITR form contains a detailed list of all your income and expenses. On this basis, the tax you have to file is calculated. Thus, ITR can also

be used as income proof as some transactions such as the purchase of property do require you to show proof of income.

4. About ITR

1. **Can help you claim deductions** to reduce the burden on the taxpayers and to encourage more people to pay their taxes, the government allows certain deduction to you. These deductions and exemptions can be availed in some investments and thus help in reducing the tax you ultimately pay.
2. **Important document while applying for loans** when you decide to apply for a loan to purchase something, say a car or a new home for your family or for business, the bank requires you to submit some documents, one important document asked is your income proof. Banks generally asked for ITR for the last three years.
3. **Avoid penalty and punishment** the taxes that apply to you are governed by the Income Tax Act 1961. Thus, you are required to pay taxes if you fall above the exempt criteria. The income tax officer can levy a penalty of up to Rs 5000 other serious punishments can also occur if you do not file return.
4. **Losses can be carried forward** section 70 and 71 of the income-tax Act 1961 contains some provisions for carrying forwarding losses of a particular year to the subsequent year. This means that you can move your loss to the next assessment year.

5. Old Tax Regime

Under the old structure of taxation, the assesses can claim the deduction, exemptions, and allowances with which they can have proper tax planning and save taxes. The existing tax structure is convoluted. Despite the high tax rates, there are several strategies to lower your tax obligation. The government has provided Indian taxpayers approximately 70 exemptions and deduction choices through the addition of section to the Income Tax Act throughout the years, allowing them to reduce their taxable income and hence pay less tax. Some exemptions are included in your income, such as the House Rent Allowance (HRA). And Leave Travel Allowances (LTA). The deductions allow you to lower your tax obligation by investing, saving, or spending on specific items. Section 80C is the most popular and generous deduction, allowing you to reduce your taxable income by up to Rs.1.5 lakh. Besides that, there are several more exemptions and deductions most widely available for the taxpayers.

6. Advantages of Old Tax & New Tax Regime

6.1. Advantages of New Tax Regime

The old income tax regime instilled a savings culture in individuals over time by requiring investments in specific tax-saving instruments' it leads to saving for future events such as marriage, schooling, home purchase, medical, etc.

New Tax Regime - Let's start with the new tax regime. It has six tax slabs, each having a lower rate on income up to Rs. 15 lakhs. Multiple exemptions and deductions are not available due to the varying income slabs and tax rates. There are benefits and drawbacks to the new tax regime. In two ways, the new tax scheme differs from the previous one:

1. The number of tax slabs has expanded under the new system, with reduced rates in the range of Rs. 15 lakh brackets.
2. In the new regime, all the exemptions and deduction that taxpayers used in the old regime will be unavailable.

6.2. Advantages of New Tax Regime

The present tax regime is still in effect and the taxpayer has the option of choosing between the old and new tax regime that best fit your needs. The government has not imposed any penalties for failing to convert to the new tax regime. The new tax regime allows taxpayers to invest their money without any preconceived limitation. There are no mandatory rules and regulations governing your investment pattern under the new program. With numerous tax slabs, you, the taxpayer, will fall into the one that best matches your annual income.

7. Old vs New Tax Regime - Which is Better?

Both the new and old income tax slabs have their benefits and drawbacks. It all depends on whether you want to claim deductions and exemptions under the new tax slab, which includes a variety of income levels and rates. Deductions and exemptions are available under the old tax slab. Before you submit your taxes, you should do a comparative evaluation and assessment under both tax systems. You can use Scrip box's Income Tax calculator and know the net tax payable under each of the regimes. This way you can plan your taxes ahead and invest accordingly. The calculator also suggests which regime is suitable for you.

Pros

Old scheme:

1. Encouragement to inculcate saving habits.
2. Investment servings as a source of passive income.
3. Helps in beating inflation through investment.

New regime:

1. Reduced tax rates and reduced compliances.
2. Greater disposal income.
3. Increased liquidity.
4. Greater flexibility in making the objective-based investment portfolio.

Cons

Old regime:

1. Lock-in period of investment hits liquidity.
2. Lower disposable income.

3. Limited choices of tax- saving investments.
4. Hassle of retention of proof of claimed deductions.

New regime:

1. Non-availability of tax deduction.
2. Reduced flexibility in choosing the new regime for those having business income.
3. Absence of automatic mechanism of inculcating saving habits.

8. Conclusion

Both regimes have their own benefits and drawbacks. The old system provided numerous exemptions and deductions under specific segments; however, some of these needed people to invest in tax-saving investment options, which helped instil a sound investment habit. The new regime, on the other hand, allows employees greater flexibility and attempts to streamline the process.

Whether the new scheme or the old one is preferable for an assessed depends on the income composition and deductions available, and each individual must make his or her own decision depending on his or her situation. Before selecting between the two taxation systems, the alternatives must be carefully assessed, and online tax calculators can be used to estimate the tax liability under each approach.

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