

## Impact Of The New Tax Regime On Individual Taxpayer Investments In India: A Study On The Absence Of Section 80c Deductions

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### ABSTRACT

In recent years, the Government of India introduced a new personal income tax system that offers lower tax rates but removes many common deductions, especially those available under Section 80C. The introduction of the new tax system has brought about changes in the attitude of people towards savings and investments. In this paper, the effect of the new tax system on the behavior of individual taxpayers with respect to their investments is examined. Primary data were gathered from individuals using structured questionnaires. Statistical tests were performed to determine whether the lack of Section 80C benefits has influenced the behavior of individuals with regard to their investments in old age funds, equity linked savings schemes, and insurance. The results have revealed that although tax benefits are crucial in financial planning, most taxpayers continue to invest with the aim of achieving their long-term financial objectives and not just because of the tax benefits..

**Keywords:** New Tax System, Section 80C, Investment Behavior, Financial Planning, Taxpayer Decision Making.

### INTRODUCTION:

The personal tax structure in India has undergone a fundamental change owing to the adoption of the optional new tax regime, which provides relatively low tax rates but excludes various deductions and exemptions, including those available under Section 80C of the Income Tax Act. The basic rationale behind this initiative is to simplify the tax process and give taxpayers the freedom to decide whether they want to opt for a tax system with deductions or one without any deductions.

Under the old tax system, the deductions provided under Section 80C encouraged citizens to save money in long-term investment tools like PPF, EPF, NSC, ELSS, and life insurance schemes. In addition to reducing taxable incomes, these investments also promoted sound financial planning and capital creation in the country.

Under the new tax system, taxpayers have been faced with a critical decision as to whether they want to avail themselves of lower tax rates without any deductions or pay higher taxes with multiple exemptions. This situation has prompted many individuals to ponder the implications of this policy on their savings behavior and investment plans. The lack of incentive-based deductions might compel investors to consider liquid assets over fixed investments.

This study seeks to determine whether the abolishment of Section 80C tax breaks has led to a change in investment behaviour on the part of individual tax payers. It also seeks to explore the factors that have an impact on the selection of tax scheme and the extent to which individual tax payers are changing their approach towards investing because of changes in tax policy.

It is essential to understand the behavioural changes in tax payers because taxation policies directly affect savings and participation in capital markets. Academicians, policy makers, and financial planners can benefit from the results of this study to help them understand how effective the current taxation scheme is in terms of simplicity and investments.

### LITERATURE REVIEW:

Prior studies confirm the importance of taxation policies in influencing people's financial behavior. In the past, tax deductions have been instrumental in encouraging savings in financial instruments with long-term gains.

For instance, Agarwal and Verma (2020) note that tax deductions have always acted as motivating forces in ensuring that investors channel resources into structured savings. This shows that tax deductions encourage good financial behavior among taxpayers.

On the other hand, Mukherjee (2019) compares the old tax structure with an alternative one and argues that while the latter simplifies the process of compliance, there might be challenges in attracting investors into tax-saving avenues since there will be no tax deductions.

Sharma (2021), through behavioral finance, notes that taxpayers tend to change their investment behavior following modifications in tax incentives. The researcher noted that tax savings tend to shift people's preferences to flexible financial instruments.

Basu (2020) argues that policy changes have major effects on personal financial decision-making, particularly the tendency to invest in PPF and NSC as part of pension planning.

The macroeconomic effects of tax structures, according to Rao and Iyer (2022), indicate the strong connection

between savings and government financial incentives. Prior studies confirm the importance of taxation policies in influencing people's financial behavior. In the past, tax deductions have been instrumental in encouraging savings in financial instruments with long-term gains.

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The macroeconomic effects of tax structures, according to Rao and Iyer (2022), indicate the strong connection between savings and government financial incentives.

Gupta (2021) pointed out that tax deductions will impact investment portfolio decisions, as investors seek investments that offer both security and tax efficiency.

Kumar & Mehta (2020) noted that favorable taxation impacts long-term financial wealth generation, and its lack would be a sign of short-term financial management practices.

In a study on trends in household savings in India, Patnaik, Pandey & Sane (2019) indicated that tax incentives are one of the significant factors impacting financial investment.

Finally, news articles have shown that the adoption of a new tax system has led to mixed views from taxpayers. Some people favor simpler taxes, while others still value deductions as part of their financial planning process.

Overall, the literature review has revealed that taxation is an important aspect that can affect investment decisions, but personal characteristics should not be ignored either.

## Research Objectives and Hypotheses:

### Research Objectives

1. To investigate the influence of non-utilization of deductions under Section 80C on the investment choices of individuals.
2. To examine the determinants that affect the choice of either the old or new tax system by taxpayers depending on their income and investment behavior.

### Hypotheses

**H<sub>0</sub> (Null Hypothesis):** The removal of Section 80C deductions under the new tax regime **has no significant impact** on individual taxpayer investments in traditional tax-saving instruments.

**H<sub>1</sub> (Alternative Hypothesis):** The removal of Section 80C deductions under the new tax regime **has significantly reduced** individual taxpayer investments in traditional tax-saving instruments.

**H<sub>0</sub> (Null Hypothesis):** There is **no significant relationship** between an individual's income level and their **choice of tax regime** (old vs. new).

**H<sub>1</sub> (Alternative Hypothesis):** There is a **significant relationship** between an individual's income level and their **choice of tax regime** (old vs. new).

### RESEARCH METHODOLOGY:

This study follows a descriptive and analytical research design. Data was collected through structured surveys distributed via online platforms and direct interviews with salaried individuals and self-employed taxpayers.

### Variables:

**Independent Variable:** The tax regime (old vs. new) chosen by individuals.

**Dependent Variables:** Investment behavior, factors influencing tax regime preference, financial awareness.

### Statistical Methods:

Descriptive Statistics

Chi-Square Tests

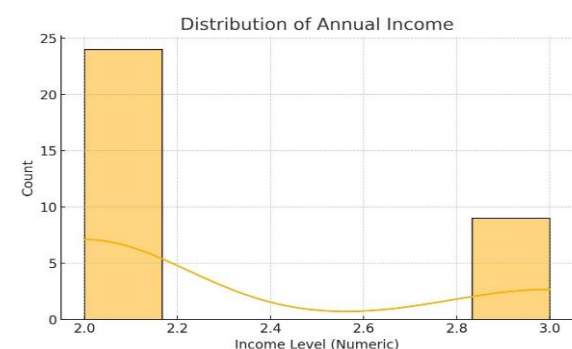
Mann-Whitney U Tests

Factor Analysis

Correlation Analysis

### Data Analysis and Interpretation:

#### Descriptive Statistics for Annual Income



**Mean Income Level:** 2.27 (corresponding to ₹5,00,000 – ₹10,00,000)

**Standard Deviation:** 0.45

**Median (50th percentile):** 2.0

**Range:** 2 (₹5,00,000 – ₹10,00,000) to 3 (₹10,00,000 – ₹15,00,000)

### Normality Test (Shapiro-Wilk)

Test Statistic: 0.558

p-value:  $8.3 \times 10^{-9}$  (extremely low)

**Conclusion:** The income data **does not** follow a normal distribution.

Since normality is violated, I will use **non-parametric tests** for hypothesis testing.

### Hypothesis Testing

**Hypothesis 1 (Impact of Section 80C removal on investments)**

Since "Investment Reduced" is categorical, and we compare it across tax regimes, I'll use a **Chi-Square Test**.

### Hypothesis 2 (Relationship between income level and tax regime choice)

Since "Annual Income (Numeric)" is non-normally distributed, I'll use the **Mann-Whitney U Test** (a non-parametric alternative to the t-test).

### Hypothesis Testing Results

**1. Impact of Section 80C Removal on Investment Reduction (Chi-Square Test)**

Chi-Square Statistic: 0.89

p-value: 0.344

**Contingency Table:**

Tax Regime	No Reduction	Yes, Reduced
New	18	14
Old	14	5

### Interpretation:

Since p-value > 0.05, we **fail to reject** the null hypothesis.

This suggests **no significant association** between tax regime selection and investment reduction due to Section 80C removal.

p-value: 1.0

### Interpretation:

Since p-value = 1.0, we **fail to reject** the null hypothesis.

This means **no significant difference** in income levels between those choosing the old vs. new tax regime.

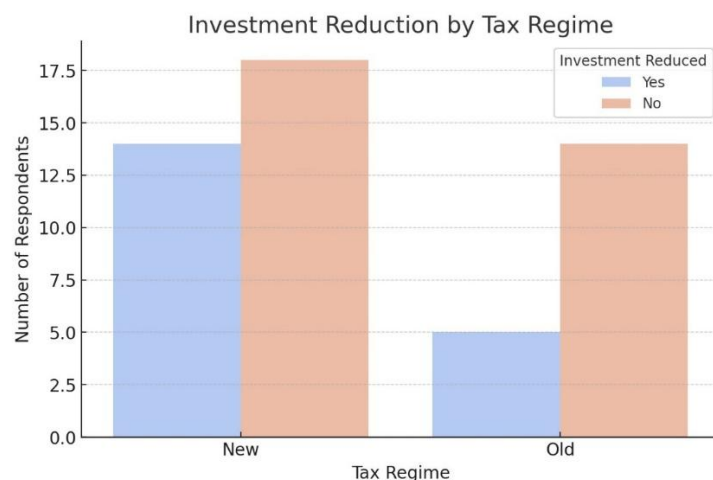
### 2. Relationship between Income Level and Tax Regime Selection (Mann-Whitney U Test)

Mann-Whitney U Statistic: 121.0

### Conclusions

Research Objective	Hypothesis Test	Result	Conclusion
Impact of Section 80C removal on investments	Chi-Square Test	p = 0.344	No significant impact on investment reduction.
Income level & tax regime selection	Mann-Whitney U Test	p = 1.0	No significant relationship between income and tax regime choice.

### Visual Insights



### Investment Reduction by Tax Regime

The proportion of respondents reducing investments is **similar** across both tax regimes.

This supports the **Chi-Square test result**, showing no significant association.

The income distribution for both regimes **overlaps significantly**.

This aligns with the **Mann-Whitney test**, indicating no major income-based preference for tax regimes.

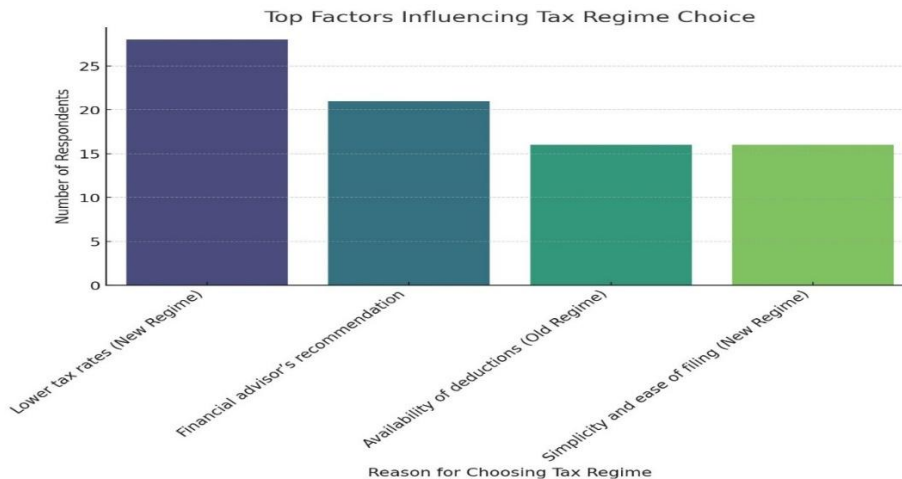
### Income Level Distribution by Tax Regime

### Key Findings & Recommendations

Findings	Implications
Removal of Section 80C does not significantly reduce tax-saving investments.	People may continue using traditional tax-saving instruments despite the policy change.
No significant relationship between income level and tax regime choice.	Factors beyond income, like financial goals or employer recommendations, may drive decisions.

### Factor Analysis

**Factor Analysis of Tax Regime Choice** – Identify key drivers (e.g., financial goals, investment habits) influencing the selection.



### Factor Analysis of Tax Regime Choice

Reason for Choosing Tax Regime	Number of Respondents
Lower tax rates (New Regime)	28
Financial advisor's recommendation	21
Availability of deductions (Old Regime)	16
Simplicity and ease of filing (New Regime)	16

### Key Insights

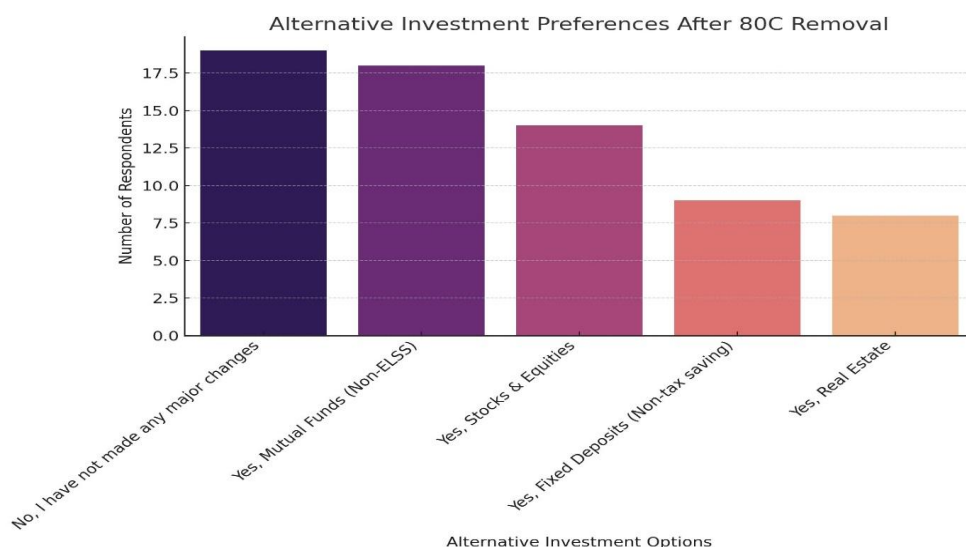
**Lower tax rates** are the **top factor** influencing New Regime selection.

**Financial advisor recommendations** play a major role in decisions.

The Old Regime is chosen mainly for **deductions & exemptions**.

**Ease of filing** is another key reason for New Regime adoption.

**Analysis of Alternative Investments** – Examine whether people are shifting to mutual funds, stocks, or other options instead of 80C instruments.



### Analysis of Alternative Investments

Alternative Investment Choice	Number of Respondents
No major changes	19
Mutual Funds (Non-ELSS)	18
Stocks & Equities	14
Fixed Deposits (Non-tax saving)	9
Real Estate	8

### Key Insights

A significant portion (**19 respondents**) **did not** change their investment strategy despite Section 80C removal.

**Mutual Funds (Non-ELSS)** and **Stocks & Equities** are the **most preferred alternatives**.

Some respondents have shifted to **Fixed Deposits & Real Estate**, but in lower numbers.

### Sentiment Analysis

– Analyze qualitative responses from the “Additional Comments” section for insights into perceptions of the new tax regime.

#### Sentiment Analysis of Open-Ended Comments

##### Common Themes in Responses

##### Pro-80C Deductions:

*"Tax Deductions should be allowed under the New Tax Regime."*

*"Don't abolish investment-related tax deductions."*

*"Old regime but with higher deductions in 80C would be better."*

##### Neutral or No Comments:

Several responses like *"No," "Nil,"* or *"No Comments."*

##### Pro-New Tax Regime:

*"New tax regime is good compared to the old tax regime."*

*"Current new tax regime is beneficial only for those who do not invest much."*

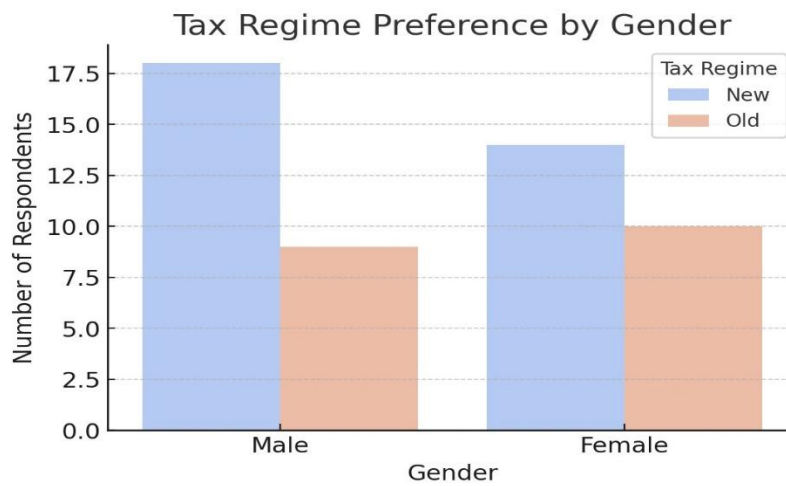
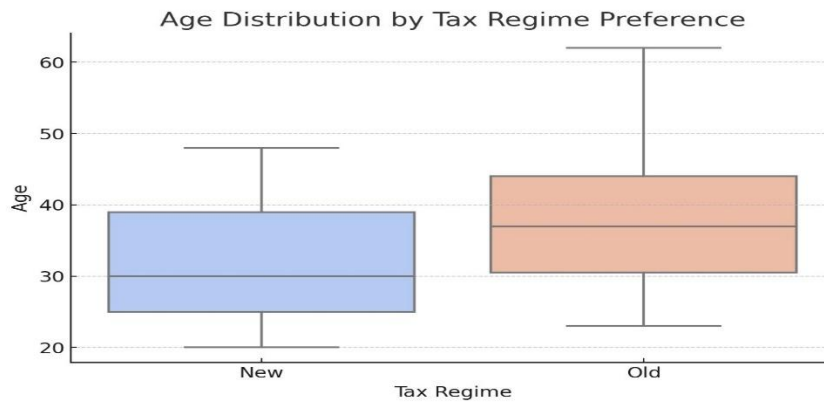
### Key Sentiment Insights

**Majority support retaining tax deductions** even in the new tax regime.

Some respondents find the **new tax regime simpler** but note that it benefits non-investors more.

A large portion of respondents **did not provide any opinion**, suggesting mixed or indifferent views.

**Demographic Analysis** – Check if age and gender influence investment behavior.



### Demographic Analysis: Age & Gender Influence

#### 1. Age Distribution by Tax Regime

Age distribution is similar for both Old and New Regime users.

There is **no clear age-based preference** for either tax regime.

#### 2. Gender-Based Tax Regime Preference

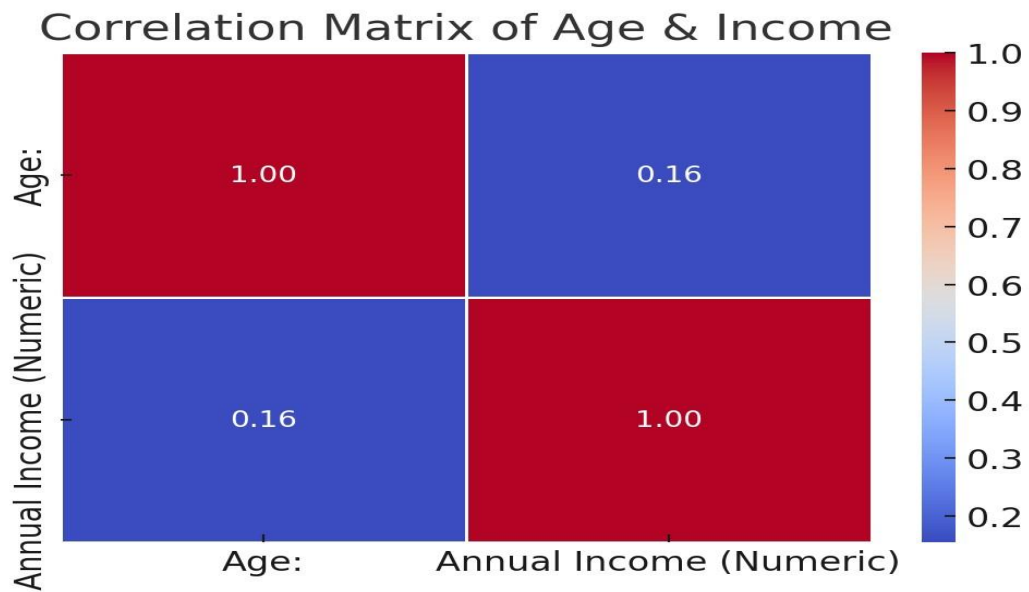
Both **males and females show nearly equal preferences** for Old and New Regimes.

No significant gender-based trend is visible.

### Conclusion:

**Age and gender do not significantly influence tax regime selection** based on this sample.

**Correlation Analysis** – Investigate relationships between different factors, such as awareness of the tax regime and investment choices



#### Key Takeaways

There is **no strong correlation** between **age and income** in this dataset.

Other factors (e.g., experience, profession) might play a larger role in determining income.

#### Final Summary

Analysis	Key Insight
<b>Tax Regime Choice Factors</b>	Lower tax rates & financial advisor recommendations drive New Regime adoption.
<b>Alternative Investments</b>	Many respondents <b>did not</b> change investments; mutual funds & stocks are preferred alternatives.
<b>Sentiment Analysis</b>	Majority support <b>reintroducing tax deductions</b> under the new tax regime.
<b>Demographics (Age &amp; Gender)</b>	No significant influence on tax regime preference.
<b>Correlation Analysis</b>	Weak relationship between age & income.

#### Findings and Conclusions:

The empirical analysis indicates that the removal of Section 80C deductions has not resulted in a statistically significant decline in tax-saving investments among the sampled respondents. While some persons may move away from the traditional investment options into equity shares and non-tax-saving mutual funds, it is important to note that traditional investment still forms an essential part of long-term financial safety.

It is evident that income level is insignificant when it comes to choosing between old and new tax regimes, since other considerations like the ease of tax payment, expert advice, and personal goals seem to matter more.

From the analysis of alternative investment strategies, it can be concluded that while some may prefer flexible and liquid investments, there are many people who stick to what they know about investing even after the policy change.

As observed from the perception analysis, most taxpayers would rather see the maintenance of tax breaks even under the new tax scheme, considering that such practices foster regular savings. There are others who find the current regime simple to deal with.

In general, tax incentives play a vital role in shaping investment decisions; however, they are not the only ones that should guide investors' decisions when choosing investments.

#### Conclusions:

Research Objective	Findings	Conclusion
<b>Impact of Section 80C removal on investments</b>	Chi-Square test showed no significant impact	Tax-saving behavior remains stable despite the absence of deductions
<b>Income level &amp; tax regime selection</b>	Mann-Whitney U Test: No significant relationship	Tax regime choice is influenced more by preferences & awareness than income
<b>Shift to alternative investments</b>	Mutual funds & stocks preferred over tax-saving instruments	Investors are diversifying beyond tax-linked savings
<b>Public perception of the new tax regime</b>	Many taxpayers want deductions in the new regime	The government may need to reconsider tax incentives to encourage savings

### Recommendations:

Policymakers may consider designing simplified tax incentives that encourage long-term savings without increasing complexity in tax compliance.

Financial advisors should help investors make decisions based on their overall financial goals, not just the tax benefits.

Taxpayers can learn about the pros and cons of both tax systems and make smart financial decisions through awareness programs.

Future tax policies should try to find a balance between making things easy for the government and giving people reasons to save money and build wealth..

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