Income Tax — New vs Old Regime

The two regimes, the slabs, and how income up to ₹12 lakh can be tax-free.

Up to ₹12 lakh tax-free (new regime) | Tax Year 2026-27

What is Income Tax?

India has two income-tax regimes, and the new regime is the default. From 1 April 2026 the Income-tax Act 2025 applies, with a single "Tax Year" (2026-27) in place of FY/AY; the slabs are unchanged. The new regime has lower, wider slabs and a big rebate, income up to ₹12 lakh (₹12.75 lakh for the salaried, after the ₹75,000 standard deduction) is effectively tax-free, but you give up most deductions. The old regime keeps higher rates but lets you claim section 123 (earlier 80C), section 126 (earlier 80D), HRA and home-loan interest. Which is better depends on how many deductions you actually use.

In brief

Suits	Every taxpayer choosing between the new (default) and old regimes.
You get	New regime: no tax up to ₹12 lakh of taxable income (₹12.75 lakh for salaried).
Your money	From Tax Year 2026-27 the Income-tax Act 2025 applies; slabs are unchanged from last year.
Tax	Old regime allows 80C (now section 123), 80D (now 126), HRA and home-loan interest.
Watch for	Compare both regimes each year; the better one depends on your deductions.

Key facts

Default regime	New regime (you must opt out for the old one)
Tax-free income	Up to ₹12 lakh (₹12.75 lakh salaried), new regime, via 87A rebate
Standard deduction	₹75,000 (new regime) · ₹50,000 (old regime)
New-regime slabs	0–4L nil, then 5/10/15/20/25/30% up to 24L+
Old regime	Lower slabs but lets you claim 80C/80D/HRA etc.

What's new

Sep 2026 CBDT extended the return due date for audit cases for 2025-26 to 21 November 2026.

Apr 2026 The Income-tax Act 2025 took effect, with a single "Tax Year" instead of FY and AY. 80C is now section 123, 80CCD section 124 and 80D section 126.

Feb 2026 Budget 2026 made no change to slabs or the ₹12 lakh rebate; the new regime stays the default.

Questions and answers

THE TWO REGIMES

What are the new-regime tax slabs for FY 2025-26?

Under the new regime (AY 2026-27): up to ₹4 lakh, nil; ₹4–8 lakh, 5%; ₹8–12 lakh, 10%; ₹12–16 lakh, 15%; ₹16–20 lakh, 20%; ₹20–24 lakh, 25%; above ₹24 lakh, 30%. A 4% health & education cess applies on the tax.

How is income up to ₹12 lakh tax-free?

Through the Section 87A rebate. Under the new regime, a resident with taxable income up to ₹12 lakh gets a rebate that wipes out the tax entirely (up to ₹60,000). Add the ₹75,000 standard deduction and a salaried person earning up to ₹12.75 lakh pays zero tax. Above ₹12 lakh, tax is charged on the slabs from the first rupee (with marginal relief near the threshold).

What are the old-regime slabs?

Old regime: up to ₹2.5 lakh, nil; ₹2.5–5 lakh, 5%; ₹5–10 lakh, 20%; above ₹10 lakh, 30% (with a ₹12,500 rebate making income up to ₹5 lakh tax-free). Seniors get slightly higher basic exemptions. The old regime's appeal is the deductions, not the slabs.

CHOOSING A REGIME

Which regime should I choose?

Roughly: if your total deductions (80C + 80D + HRA + home-loan interest + NPS, etc.) are large, often ₹3.75–4 lakh+, the old regime may still win. If you claim few deductions, the new regime's lower rates and ₹12 lakh rebate usually win. The only reliable way is to compute your tax both ways, use our income-tax calculator.

Can I switch regimes every year?

Salaried individuals (with no business income) can choose the regime afresh each year when filing. Those with business/professional income can switch to the new regime only once and face restrictions on switching back. The new regime is the default, so you must actively opt for the old one if you want it.

DEDUCTIONS

Which deductions survive in the new regime?

Most don't, 80C, 80D, HRA, LTA and home-loan interest on a self-occupied house are NOT available in the new regime. What DOES survive: the ₹75,000 standard deduction, the employer's NPS contribution under 80CCD(2), and a few others. The old regime is where the familiar deductions live.

What is section 123 (earlier 80C)?

An old-regime deduction of up to ₹1.5 lakh a year for specified investments/expenses, PPF, ELSS, EPF/VPF, life-insurance premium, principal on a home loan, tuition fees, NSC, 5-year tax-saver FD, Sukanya, and more. It's the workhorse deduction for old-regime taxpayers.

What is section 126 (earlier 80D)?

An old-regime deduction for health-insurance premiums: up to ₹25,000 for self/spouse/children (₹50,000 if any insured is a senior), plus another ₹25,000 for parents (₹50,000 if a parent is a senior), a maximum of ₹1 lakh. A ₹5,000 preventive health check-up is included within these limits.

FILING & GOOD TO KNOW

When is the tax return (ITR) due?

For most individuals, 31 July after the year ends (31 July 2026 for FY 2025-26, filed under the 1961 Act; 31 July 2027 for Tax Year 2026-27, unless extended). Audit cases for FY 2025-26 have until 21 November 2026 (CBDT Circular 7/2026). Filing late attracts a fee and interest, and you may lose the ability to carry forward certain losses.

What is advance tax and TDS?

TDS is tax deducted at source on salary, interest, etc. Advance tax is tax you pay in instalments during the year if your total tax liability (after TDS) exceeds ₹10,000, due in June, September, December and March. Missing advance-tax instalments attracts interest under sections 234B/234C.

Sources: CBDT Circular 7/2026; TaxGuru: Chapter VIII deductions under the Income-tax Act 2025; PRS Legislative Research, Budget 2026-27 analysis.

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