



## Recent Trends in Direct Taxation (Income Tax) With Reference to Assessment Year 2026-27

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### **Abstract:**

*Taxation remains the primary source of revenue for infrastructural development in any country. In India, taxation is divided into two categories: direct taxes and indirect taxes. The introduction of Goods and Services Tax (GST) has significantly restructured indirect taxation, while direct taxes continue to evolve with new provisions in each Union Budget. For the Assessment Year 2026-27 (Financial Year 2025-26), the income tax landscape is marked by a dual-regime framework: the New Tax Regime, which is the default regime under Section 115BAC offering lower slab rates with limited deductions, and the Old Tax Regime, which retains the full range of exemptions and deductions including those under Chapter VI-A. This paper examines recent trends in direct taxation for AY 2026-27, with special emphasis on the New Tax Regime versus Old Tax Regime choice and key deduction provisions under Chapter VI-A that remain relevant for taxpayers opting for the old regime*

**Keywords:** *Direct Taxation, Assessment Year 2026-27, New Tax Regime, Old Tax Regime, Chapter VI-A Deductions, Section 80C, Section 87A*

### **Introduction:**

In India, taxation is divided into two main groups: direct taxes and indirect taxes. The landmark introduction of Goods and Services Tax (GST) has substantially replaced traditional indirect taxes such as VAT, Service Tax, and Excise Duty across most product categories, though certain commodities like petrol and diesel remain outside the GST framework. Direct taxes, on the other hand, are determined by a taxpayer's income earned during a financial year and are governed by the Income Tax Act, 1961.

For Assessment Year 2026-27, the most significant development in direct taxation is the dual-regime structure. The New Tax Regime under Section 115BAC is now the default regime, differentiated by lower slab rates, a higher basic exemption limit of ₹ 4 lakh, and a generous rebate under Section 87A that makes income up to ₹ 12

lakh effectively tax-free for resident individuals. The Old Tax Regime, while retaining higher slab rates, allows taxpayers to claim the full variety of deductions and exemptions, including Chapter VI-A deductions, HRA, LTA, and home loan interest deductions. The choice between the two regimes is a critical tax planning decision for every taxpayer.

Additionally, the Income Tax Act, 2025 has been enacted to replace the decades-old Income Tax Act, 1961, with the new legislation set to come into effect from 1st April 2026, signaling a major modernization of India's direct tax framework.

### **Objectives of the study:**

1. To understand the distinction between direct and indirect taxes.

2. To examine the New Tax Regime versus Old Tax Regime framework for AY 2026-27.
3. To analyze the key deduction provisions under Chapter VI-A applicable under the Old Tax Regime.
4. To discuss the applicable tax rates and major changes introduced for AY 2026-27.

### Research Methodology:

This paper is based on secondary data collected from books, the Finance Act 2025 (Union Budget 2025), the Income Tax Act, 1961, official government notifications, and authoritative internet sources including the Income Tax Department of India website.

Scope and Limitations of the Study:

1. Assessment Year 2026-27 (Financial Year 2025-26) is taken for the purpose of study.
2. Income tax, one of the primary forms of direct taxation, is selected for the purpose of this study.
3. Under various provisions and deductions, only deductions under Chapter VI-A are considered in detail.
4. The impact of the New Tax Regime (default regime) and its interplay with Chapter VI-A deductions is examined.

### History of Taxation in India

In India, the system of direct taxation has been in force in one form or another since ancient times. Both Manu Smriti and Arthashastra make references to a variety of tax measures. The ancient sage Manu advised that taxes should be related to the income and expenditure of the subject and cautioned against both complete absence of taxes and exorbitant taxation. Kautilya's Arthashastra, written around 300 B.C., contains an elaborate and systematic treatment of state taxation, including income tax collection from artisans, musicians, traders, and agricultural produce.

The modern income tax system in India was introduced during British rule via the Income Tax Act of 1860 and subsequently revised through 1886 and 1918. The Income Tax Act of 1961 has governed direct taxation in India for over six decades and is now being replaced by the Income Tax Act, 2025, effective from 1st April 2026, in a significant legislative overhaul aimed at simplification and modernization.

### Direct Tax and Indirect Tax:

#### A. Direct Tax:

- Direct tax is paid directly by an individual or organization to the government.
- Direct taxes are based on the ability-to-pay principle: those who earn more pay at a higher rate.
- The purpose of direct tax is to redistribute wealth by imposing a progressive burden on higher income earners.
- Direct taxes cannot be shifted or passed on to another person or entity.
- The individual or organization on whom the tax is levied is solely responsible for payment.
- It is considered a progressive tax since the rate increases with the taxpayer's ability to pay.

#### B. Indirect Tax:

- An indirect tax is shifted from one taxpayer to another, collected by one person but ultimately borne by another.
- Indirect tax is levied on goods or services, increasing the price for consumers. The tax is ultimately paid by the end consumer through a higher retail price.
- Indirect taxes are levied equally upon all taxpayers, irrespective of their income levels.
- Indirect taxes are passed on as the price of the tax is compensated by increasing the overall price of the good or service.

- It is considered a regressive tax since all taxpayers rich or poor bear the same burden proportionally.

#### Dual Tax Regime Framework for AY 2026-27:

One of the most significant structural changes in Indian direct taxation is the introduction and entrenchment of the dual-regime framework. From Financial Year 2023-24 onwards, the New Tax Regime under Section 115BAC became the default regime. For AY 2026-27, both regimes remain available, and taxpayers must make an informed choice between them. The Union Budget 2025 introduced significant relief under the new regime, making it even more attractive for middle income earners.

#### A. New Tax Regime (Default) Section 115BAC:

The New Tax Regime is now the default regime for all taxpayers. Taxpayers who wish to avail deductions and exemptions under the old regime must explicitly opt for it at the time of filing their Income Tax Return.

#### New Tax Regime Slab Rates for AY 2026-27 (FY 2025-26):

| Income Slab                | Tax Rate | Maximum Tax in Slab |
|----------------------------|----------|---------------------|
| Up to ₹ 4,00,000           | Nil      | Nil                 |
| ₹ 4,00,001 to ₹ 8,00,000   | 5%       | Up to ₹ 20,000      |
| ₹ 8,00,001 to ₹ 12,00,000  | 10%      | Up to ₹ 40,000      |
| ₹ 12,00,001 to ₹ 16,00,000 | 15%      | Up to ₹ 60,000      |
| ₹ 16,00,001 to ₹ 20,00,000 | 20%      | Up to ₹ 80,000      |
| ₹ 20,00,001 to ₹ 24,00,000 | 25%      | Up to ₹ 1,00,000    |
| Above ₹ 24,00,000          | 30%      | —                   |

Health and Education Cess at 4% is applicable on the tax amount. Surcharge applies as per applicable income thresholds. Rebate under Section 87A of ₹ 60,000 is available for resident individuals with taxable income not exceeding ₹ 12,00,000, effectively reducing tax liability to zero.

#### B. Old Tax Regime:

The Old Tax Regime retains the conventional slab structure with a higher basic exemption limit for

#### Key features of the New Tax Regime for AY 2026-27:

- Basic exemption limit raised to ₹ 4,00,000 (from ₹ 3,00,000 in the previous year).
- Section 87A rebate increased to ₹ 60,000 for taxable income up to ₹ 12,00,000, making income up to ₹ 12 lakh effectively tax-free for resident individuals.
- Standard deduction of ₹ 75,000 available to salaried individuals and pensioners (up from ₹ 50,000), making gross salary up to ₹ 12,75,000 effectively tax-free.
- Employer's NPS contribution deductible under Section 80CCD(2) up to 14% of salary.
- Surcharge capped at 25% even for income above ₹ 5 crore.
- Most traditional deductions such as HRA, LTA, Section 80C, 80D, and home loan interest (Section 24b on self-occupied property) are NOT available under this regime.

senior and super senior citizens. Under this regime, taxpayers can continue to avail the full range of deductions including Chapter VI-A deductions (Section 80C, 80D, etc.), HRA exemption, LTA, home loan interest deduction under Section 24(b), and other allowances. The standard deduction under this regime remains ₹ 50,000 for salaried individuals.

**Old Tax Regime Slab Rates for AY 2026-27 (for individuals below 60 years):**

| Income Slab               | Tax Rate | Maximum Tax in Slab |
|---------------------------|----------|---------------------|
| Up to ₹ 2,50,000          | Nil      | —                   |
| ₹ 2,50,001 to ₹ 5,00,000  | 5%       | Up to ₹ 12,500      |
| ₹ 5,00,001 to ₹ 10,00,000 | 20%      | Up to ₹ 1,00,000    |
| Above ₹ 10,00,000         | 30%      | —                   |

Senior citizens (60-80 years) enjoy a basic exemption of ₹ 3,00,000; super senior citizens (above 80 years) enjoy ₹ 5,00,000. The Section 87A rebate under the old regime provides up to ₹ 12,500 for taxable income not exceeding ₹ 5,00,000.

**C. Choosing Between the Two Regimes:**

The decision between the two regimes hinges primarily on the quantum of deductions and exemptions a taxpayer can legitimately claim. As a general principle:

- Taxpayers with minimal deductions and investments typically benefit from the New Tax Regime due to lower rates and higher rebates.
- Taxpayers with substantial deductions including HRA, Section 80C investments, Section 80D premiums, and home loan

interest may find the Old Tax Regime more beneficial.

- Salaried individuals with gross income up to ₹ 12,75,000 pay zero tax under the New Tax Regime.
- At higher income levels (above ₹ 15 lakh), the Old Tax Regime becomes favorable when total deductions claimed exceed the threshold.

**Chapter VI-A (Section 80) Deductions - Old Tax Regime:**

The deductions under Chapter VI-A of the Income Tax Act are applicable to taxpayers who opt for the Old Tax Regime. These deductions are NOT available under the New Tax Regime, except as specifically noted. The following is a comprehensive overview of deductions for AY 2026-27.

**Summary Table of Chapter VI-A Deductions:**

| Section   | Particulars                              | Limit (Old Regime)                               |
|-----------|--|--|
| 80C       | Investments (PPF, ELSS, LIC, EPF, etc.)  | Up to ₹ 1,50,000                                 |
| 80CCC     | Annuity Premium to LIC/Insurer           | Within 80C limit of ₹ 1,50,000                   |
| 80CCD(1)  | Employee's contribution to NPS           | 10% of salary or ₹ 1,50,000 (whichever is less)  |
| 80CCD(1B) | Additional NPS contribution              | Up to ₹ 50,000 (over and above 80C)              |
| 80CCD(2)  | Employer's NPS contribution              | Up to 14% of salary (also allowed in new regime) |
| 80D       | Medical Insurance Premium                | ₹ 25,000 / ₹ 50,000 (senior citizens)            |
| 80DD      | Disabled Dependent Relative              | ₹ 75,000 / ₹ 1,25,000 (severe)                   |
| 80DDB     | Medical Expenditure (specified diseases) | ₹ 40,000 / ₹ 1,00,000 (senior citizens)          |
| 80E       | Interest on Education Loan               | Actual interest (no upper limit, 8 years)        |
| 80G       | Donations to Social Causes               | 50% or 100% of donation (conditions apply)       |
| 80GG      | House Rent (where HRA not received)      | As per formula, conditions apply                 |

|       |  |                                     |
|-------|--|-------------------------------------|
| 80GGB | Company contribution to Political Party    | Actual amount (non-cash only)       |
| 80GGC | Individual contribution to Political Party | Actual amount (non-cash only)       |
| 80RRB | Royalty Income from Patents                | Up to ₹ 3,00,000                    |
| 80TTA | Interest on Savings Account (non-senior)   | Up to ₹ 10,000                      |
| 80TTB | Interest on Deposits (Senior Citizens)     | Up to ₹ 50,000                      |
| 80U   | Person with Physical Disability            | ₹ 75,000 / ₹ 1,25,000 (severe)      |
| 80CCH | Contribution to Agniveer Corpus Fund       | Full deduction (also in new regime) |

### 1. Section 80C: Deductions on Investments:

Under Section 80C, a deduction of up to ₹ 1,50,000 can be claimed from total income. This deduction is available to Individuals and HUFs opting for the Old Tax Regime. Eligible investments include contributions to Employees' Provident Fund (EPF), Public Provident Fund (PPF), Equity Linked Savings Scheme (ELSS), Life Insurance Premiums, National Savings Certificate (NSC), repayment of housing loan principal, Sukanya Samriddhi Yojana, and tuition fees for children.

**Important for AY 2026-27:** Section 80C deductions are NOT available under the New Tax Regime. Taxpayers choosing the New Tax Regime must forgo these deductions in exchange for lower tax rates.

**2. Section 80CCC: Deduction for Annuity Premium:** This section provides a deduction to individuals for amounts paid or deposited in any annuity plan of LIC or any other insurer. The plan must be for receiving a pension from a fund referred to in Section 10(23AAB). The deduction under this section falls within the overall ceiling of ₹ 1,50,000 under Section 80C. Pension received from the annuity or amounts received upon surrender are taxable in the year of receipt.

### 3. Section 80CCD: Deduction for NPS Contributions:

**(a) Employee's Contribution Section 80CCD(1):** Deduction is allowed up to 10% of salary (for employees) or 20% of gross total income (for self-employed), subject to an overall ceiling of ₹ 1,50,000 under Section 80C.

**(b) Additional NPS Contribution Section 80CCD(1B):** An additional deduction of ₹ 50,000 per year is available for contributions to the National Pension System (NPS), over and above the Section 80C limit. This makes total NPS-related deduction up to ₹ 2,00,000 per year.

**(c) Employer's Contribution Section 80CCD(2):** Deduction is allowed for the employer's contribution to an employee's NPS account up to 14% of salary (increased from 10% in Budget 2024). Notably, this deduction is available even under the New Tax Regime.

**4. Section 80D: Deduction for Medical Insurance Premium:** Deduction under Section 80D is available to individuals and HUFs opting for the Old Tax Regime. A deduction of ₹ 25,000 can be claimed for health insurance premium paid for self, spouse, and dependent children. An additional deduction for insurance of parents is available up to ₹ 25,000 (if below 60 years) or ₹ 50,000 (if parents are senior citizens). In cases where both the taxpayer and parents are senior citizens (60 years and above), the maximum deduction available under this section is ₹

1,00,000. A deduction of ₹ 5,000 continues to be allowed for preventive health check-up within the above limits.

**5. Section 80DD:** Rehabilitation of Disabled Dependent: This deduction is available to resident individuals and HUFs on: (a) expenditure incurred on medical treatment, training, and rehabilitation of a handicapped dependent relative, or (b) payment to a specified scheme for maintenance of such dependent. The deduction is ₹ 75,000 where disability is 40% or more but less than 80%, and ₹ 1,25,000 for severe disability (80% or above).

**6. Section 80DDB:** Deduction for Specified Medical Diseases: Available to resident individuals and HUFs, this deduction covers expenses on treatment of specified critical diseases for self or dependent relatives. The deduction is ₹ 40,000 (or actual expenditure, whichever is less) for individuals below 60 years, and ₹ 1,00,000 for senior citizens. The amount is reduced by any insurance reimbursement or reimbursement received from any other source.

**7. Section 80E:** Deduction for Interest on Education Loan: A deduction is allowed to an individual for interest on loans taken for higher education. This loan may have been taken for the taxpayer, spouse, children, or a student for whom the taxpayer is a legal guardian. The deduction is available for a maximum of 8 years (beginning the year in which interest repayment starts) or till the entire interest is repaid, whichever is earlier. There is no restriction on the amount that can be claimed. This deduction is NOT available under the New Tax Regime.

**8. Section 80G:** Deduction for Donations: Various donations specified under Section 80G are eligible for deduction, either at 100% or 50% of the amount donated, with or without restrictions. From FY 2017-18 onwards, donations made in cash exceeding ₹ 2,000 are not allowed as a deduction. Donations above ₹ 2,000 must be made through non-cash modes (cheque,

online transfer, etc.) to qualify. This provision continues for AY 2026-27.

**9. Section 80GG: Deduction for House Rent Paid (Without HRA):** This deduction is available to taxpayers who pay rent but do not receive House Rent Allowance (HRA) as part of their salary. The taxpayer, spouse, or minor child should not own residential accommodation at the place of employment. The deduction is computed as the least of: (a) ₹ 5,000 per month, (b) 25% of total income, or (c) rent paid minus 10% of total income.

**10. Section 80GGB & 80GGC:** Contributions to Political Parties: Section 80GGB: Deduction is allowed to an Indian company for amounts contributed to any political party or electoral trust. Only non-cash contributions qualify.

**Section 80GGC:** Deduction is allowed to any taxpayer except companies, local authorities, and government-funded artificial juridical persons, for contributions to political parties or electoral trusts. Only non-cash contributions qualify.

**11. Section 80RRB: Royalty Income from Patents:** Deduction for income by way of royalty for a patent registered on or after 1 April 2003 under the Patents Act, 1970 shall be available up to ₹ 3,00,000 or the income received, whichever is less. The taxpayer must be an individual resident of India who is the patentee and must furnish a certificate in the prescribed form duly signed by the prescribed authority.

**12. Section 80TTA & 80TTB: Deduction for Interest on Deposits**

**Section 80TTA (for non-senior citizens):** A deduction of up to ₹ 10,000 can be claimed against interest income from savings bank accounts with a bank, co-operative society, or post office. This deduction is NOT available under the New Tax Regime and does not apply to interest from fixed deposits, recurring deposits, or corporate bonds.

**Section 80TTB (for Senior Citizens):** Inserted via Budget 2018, a deduction of up to ₹ 50,000 is allowed in respect of interest income from all types of deposits (including fixed deposits and recurring deposits) held by senior citizens. Importantly, senior citizens cannot simultaneously claim Section 80TTA. Budget 2026 confirmed that Section 80TTB deduction is also available under the New Tax Regime for senior citizens — a notable benefit.

**13. Section 80U: Deduction for Person with Physical Disability:** A deduction of ₹ 75,000 is available to a resident individual who suffers from a physical disability (including blindness) or mental retardation. In cases of severe disability (80% or more), the deduction amount is ₹ 1,25,000. This deduction is NOT available under the New Tax Regime.

**14. Section 80CCH: Agniveer Corpus Fund (New Provision):** A new deduction introduced for personnel enrolled under the Agnipath Scheme. Any amount contributed to the Agniveer Corpus Fund, including equal contributions made by the Central Government, is fully deductible under Section 80CCH. Additionally, the amount received at the end of the tenure is exempt under Section 10(12C). This deduction is available under both the New Tax Regime and the Old Tax Regime, making it a universally accessible benefit.

#### **Conclusion:**

The New Tax Regime, now the default option under Section 115BAC, offers significantly relaxed slab rates, a basic exemption of ₹ 4 lakh, and a Section 87A rebate of ₹ 60,000 effectively making income up to ₹ 12 lakh tax-free for resident individuals and up to ₹ 12.75 lakh tax-free for salaried individuals after the enhanced standard deduction of ₹ 75,000.

For taxpayers who opt for the Old Tax Regime, Chapter VI-A deductions continue to be a powerful tool for reducing tax liability. Deductions under sections 80C, 80CCD(1B), 80D, 80E, 80TTA/80TTB, and 80G collectively allow substantial reduction in taxable income. The optimal tax-saving strategy for any individual depends on their income level, investment profile, and family circumstances.

A key observation is that the relevance of Chapter VI-A deductions is now restricted largely to the Old Tax Regime. The New Tax Regime, by design, eliminates most deductions in exchange for lower rates, simplifying compliance and reducing the need for investment-driven tax planning. However, certain provisions such as Section 80CCD(2), 80CCH, and Section 80TTB are available even under the New Tax Regime, providing targeted relief. Taxpayers for AY 2026-27 must evaluate their total deduction potential against the available slab benefits under both regimes to arrive at the most tax-efficient choice.

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