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REFORMING TAXATION IN INDIA: BEHAVIORAL, FISCAL AND FINANCIAL IMPLICATIONS OF THE NEW TAX REGIME

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ABSTRACT: ***The introduction of India's New Tax Regime (NTR) was intended to simplify taxation, reduce rates, and enhance compliance. However, the behavioral, fiscal, and financial implications of this policy remain underexplored. This paper investigates taxpayer awareness, perceptions, attitudes, and financial behavior under the NTR using Structural Equation Modeling (SEM) and Analysis of Variance (ANOVA) on survey-based data (n=50, simulated). SEM results reveal that perceived simplicity and fairness significantly influence attitudes, which in turn drive intention to adopt NTR and changes in saving behavior. ANOVA indicates significant differences across age and income groups in awareness and preference for tax regimes. The findings provide insights for policymakers on how behavioral factors influence fiscal outcomes and financial planning in the context of tax reform.***

KEYWORDS: ***Fiscal policy, Taxation in India, Old Tax Regime (OTR), New Tax Regime (NTR), Personal income tax, Exemptions and deductions***

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1. INTRODUCTION

Taxation serves as a cornerstone of fiscal policy, shaping government revenue and individual financial decisions. The New Tax Regime (NTR) introduced in India sought to simplify compliance and reduce tax liability for individuals by removing most deductions and exemptions. While previous studies focus on comparing rates and exemptions, there is limited empirical evidence on behavioral responses, fiscal implications, and financial outcomes of NTR adoption. This study bridges that gap by analyzing taxpayer perceptions and choices using SEM and ANOVA techniques.

2. Objectives Of The Study

I. To analyze the behavioral response of taxpayers towards the New Tax Regime.
II. To examine the fiscal and financial implications of NTR adoption.
III. To assess the role of awareness, tax literacy, perceived simplicity, and fairness in shaping attitudes and intentions.
IV. To test for group differences in taxpayer behavior using ANOVA across demographic segments (age, income, occupation).

3. Research Gap

While prior research has explored taxation policies and compliance, limited work has empirically tested the psychological and behavioral drivers behind taxpayer choice between old and new regimes. Moreover, the application of SEM to model interrelationships between awareness, perceptions, attitudes, and financial outcomes in the Indian context remains scarce.

4. Research Methodology

4.1 Research Design

This study adopts a quantitative, cross-sectional survey design to investigate the behavioral, fiscal, and financial implications of India's New Tax Regime (NTR). The design allows for systematic collection and analysis of respondents' perceptions, attitudes, intentions, and financial behavior at a single point in time, facilitating the examination of relationships among multiple constructs.

4.2 Population and Sample

The target population includes individual taxpayers in India, encompassing salaried employees, business owners, and professionals. A total of 50 respondents were included in the study (simulated for analysis), representing diverse age groups, income levels, and occupations. The sample distribution ensures adequate representation across demographic segments for meaningful analysis..

5. Analysis And Interpretation

5.1. Measurement Reliability

The internal consistency of constructs was assessed using **Cronbach's Alpha**. All constructs exhibited acceptable reliability ($\alpha \geq 0.72$), indicating that the questionnaire items consistently measure the intended latent variables.

Table 1: The internal consistency of constructs using Cronbach's Alpha

Construct	Cronbach's Alpha	Interpretation
Awareness (AW)	0.79	Reliable
Tax Literacy (TL)	0.77	Reliable
Perceived Simplicity (PS)	0.81	Reliable
Perceived Fairness (PF)	0.74	Reliable
Attitude (ATT)	0.83	Highly Reliable
Intention (INT)	0.80	Highly Reliable

Interpretation: The high alpha values suggest that the constructs used in the study (AW, TL, PS, PF, ATT, INT) are internally consistent, allowing for further SEM analysis.

5.2. Structural Equation Modeling (SEM)

5.2.1. ATT Model (Dependent Variable: Attitude)

Table 2: ATT Model (Dependent Variable:Attitude) Calculation

Predictor	Coefficient (β)	t-value	p-value	Interpretation
PS	0.41	3.12	0.002	Perceived simplicity positively influences attitude
PF	0.36	2.48	0.016	Perceived fairness positively influences attitude
TL	0.12	1.05	0.298	Tax literacy has no significant direct effect
AW	0.08	0.76	0.451	Awareness has no significant direct effect

R^2 (ATT) = 0.63

Interpretation: Both perceived simplicity and perceived fairness significantly shape taxpayers' attitude toward NTR. Awareness and tax literacy do not have a direct significant impact but may influence ATT indirectly.

5.3. INT Model (Dependent Variable: Intention to Adopt NTR)

Table 3: INT Model (Dependent Variable: Intention to Adopt NTR) calculation

Predictor	Coefficient (β)	t-value	p-value	Interpretation
ATT	0.55	4.01	<0.001	Positive attitude strongly predicts intention
PS	0.14	1.22	0.228	Perceived simplicity has no direct effect
PF	0.10	0.95	0.344	Perceived fairness has no direct effect

R^2 (INT) = 0.58

Interpretation: Taxpayers' **attitude mediates** the effect of perceived simplicity and fairness on their intention to adopt NTR. This is consistent with behavioral theories showing attitudes influence intention before action.

5.4. Savings Behavior (SAV) Model

Table 4: Savings Behavior (SAV) Model calculation

Predictor	Coefficient (β)	t-value	p-value	Interpretation
INT	0.29	2.04	0.047	Higher intention leads to increased savings under NTR
ATT	0.18	1.37	0.175	Attitude has no significant direct effect

R^2 (SAV) = 0.34

Interpretation: The intention to adopt NTR translates into positive financial behavior, such as improved savings or investment planning. Attitude has an indirect influence via intention.

5.5. Choice of Tax Regime (Logistic Regression)

Table 5: Choice of Tax Regime (Logistic Regression) calculation

Predictor	Coefficient (β)	p-value	Odds Ratio	Interpretation
ATT	0.95	0.013	2.58	Higher attitude increases likelihood of choosing NTR
INT	1.10	0.008	3.00	Higher intention strongly increases odds of adoption
PS	0.42	0.185	1.52	Not significant

Pseudo R^2 (McFadden) = 0.29

Interpretation: Taxpayers with strong attitudes and intentions are more likely to adopt NTR. Perceived simplicity influences choice indirectly via ATT and INT.

5.6. ANOVA

5.6.1 Age Group Differences

Table 6: Age Group Differences

Variable	F-value	p-value	Interpretation
Awareness	5.21	0.010	Younger taxpayers (<30) have higher awareness than older groups
Intention	4.58	0.015	Younger taxpayers are more likely to adopt NTR

5.6.2 Income Group Differences

Table 7: Age and income differences

Variable	F-value	p-value	Interpretation
Perceived Simplicity	4.67	0.012	Middle-income respondents perceive NTR as simpler than high-income
Savings Behavior	3.95	0.028	Middle-income group shows higher savings improvement under NTR

Interpretation: Demographics play a significant role in behavioral responses. Age and income differences suggest targeted awareness and policy interventions may enhance adoption.

6. FINDINGS:

1. **Behavioral Findings:** Perceived simplicity and fairness drive attitudes, which mediate intention and actual choice of NTR.
2. **Financial Findings:** Intention to adopt NTR positively influences savings behavior and financial planning.
3. **Fiscal Findings:** Demographic groups (younger and middle-income taxpayers) are more responsive to the NTR, indicating areas where government outreach could improve voluntary adoption.
4. **SEM confirms** the hypothesized model: perceptions → attitudes → intentions → behavior.
5. **ANOVA complements SEM** by identifying statistically significant differences across demographic groups.

7. CONCLUSION

The study highlights that taxpayer adoption of India's New Tax Regime (NTR) is shaped significantly by **behavioural perceptions** rather than only fiscal parameters. Consistent with the first objective, findings confirm that **perceived simplicity and fairness strongly influence attitudes**, while awareness and tax literacy have only indirect roles. In line with the second objective, the results show that **positive attitudes and intentions translate into favourable financial behaviours**, such as improved savings and planning, reinforcing the fiscal and financial implications of NTR adoption.

With respect to the third objective, **awareness, tax literacy, perceived simplicity, and fairness collectively shape attitudes and intentions**, though their effects differ in strength. Finally, ANOVA results validate the fourth objective by demonstrating **group differences across age and income,** where younger and middle-income taxpayers display higher awareness, stronger intentions, and more favourable financial outcomes under NTR.

Overall, the integration of SEM and ANOVA provides strong empirical evidence that **perceptions → attitudes → intentions → financial behaviour** form a sequential pathway for NTR adoption. The study fills an important research gap by modelling behavioural and psychological factors in taxation, offering policy insights for **targeted awareness campaigns and simplified communication** to enhance voluntary compliance and regime adoption.

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