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Financial Literacy And Tax Planning Awareness: A Case Study Of Salaried Employees In The Organised Sector In Patna, Bihar

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Abstract
Employees in Patna's organised sector must decide every year between two income-tax regimes, yet national evidence shows that only 27.18% of Indian adults meet the minimum financial-literacy threshold. This paper asks which regime minimises tax for typical salaried households in Patna under the rules that apply from Tax Year 2026-27, and how stable that answer is. Three illustrative profiles are analysed: a 30-year-old public-sector bank officer, a 40-year-old Bihar government employee with a home loan, and a 65-year-old retired professor living on pension, rent and deposit interest. Tax is computed deterministically under both regimes and supplemented by a break-even analysis and a rule-change sensitivity test. The new regime produced the lower liability in every case: nil against ₹96,200 (Case 1), ₹1,50,800 against ₹2,29,320 (Case 2) and ₹78,780 against ₹1,86,160 (Case 3). For gross salaries between ₹13.5 lakh and ₹30 lakh, the old regime needs roughly ₹5.6–8.5 lakh of total deductions to break even, which is more than most employees can claim. Applying the superseded FY 2023-24 rules to the same Case 2 reverses the ranking, showing how quickly legislative change can invalidate a once-sound choice. The paper closes with five practical recommendations for employers, financial advisers and policymakers.

Keywords: tax planning; old tax regime; new tax regime; Income-tax Act 2025; financial literacy; salaried employees; Patna; Bihar

1. INTRODUCTION

Income tax is one of the largest recurring claims on a salaried household's earnings, so the way it is planned shapes both monthly cash flow and long-term saving. Indian law lets individual taxpayers choose between an old regime, which allows exemptions and deductions such as house rent allowance (HRA), Section 80C investments, health-insurance premiums and home-loan interest, and a new regime with lower slab rates but very few deductions. Since 1 April 2026 these rules sit in the Income-tax Act, 2025, which replaced the 1961 Act; the new regime that was Section 115BAC is now Section 202 and the rebate formerly in Section 87A is now Section 156 (Sidhu, 2026; ClearTax, n.d.). Slab rates for Tax Year 2026-27 were left unchanged by the Union Budget (Bhatt & Joshi Associates, 2026).

Choosing well requires comparing the two computations, not trusting habit or hearsay. That is a demanding task where financial literacy is low. The National Financial Literacy and Inclusion Survey 2019, which interviewed 75,140 adults, found that 27.18% reached the minimum score in every component of financial literacy, with 29% of men but only 21% of women doing so (Reserve Bank of India, n.d.). Patna, the capital of Bihar, is where many such choices are made: the district had 58,38,465 residents in the 2011 Census, 43.07% of them urban, and the Patna urban agglomeration alone had 20,49,156 (Census 2011 India, n.d.). The city's organised workforce includes state and central government staff, public-sector bank officers, university teachers and a growing IT/ITES segment. Existing regime-choice research has concentrated on other places, such as Bengaluru, Shivamogga and Kamrup Metro, and much of it was written before the ₹12 lakh rebate and the Income-tax Act, 2025 came into force. No study of which we are aware applies the current rules to Patna. This paper fills that gap with a transparent, reproducible comparison of the two regimes for three life-stage profiles, and then tests how sensitive each recommendation is to the amount of deductions claimed and to changes in the law. Section 2 reviews related work, Section 3 states the objectives, Section 4 sets the scope, Section 5 explains the method, Sections 6 and 7 present the cases and the results, Section 8 draws policy implications, and Sections 9 and 10 give limitations and conclusions.

2. REVIEW OF LITERATURE

2.1 Regime choice among salaried taxpayers

Ojha and Agarwala (2024) examined how readily public-sector bank and education employees in Kamrup Metro, Assam, accepted the new regime and which factors shaped the choice. Balaswamy (2025) compared the two regimes for salaried taxpayers in Shivamogga district and ended with suggestions for the government. A broader

market survey by Policybazaar, reported by Business Standard (2023), found that 63% of respondents filed under the old regime in FY 2023-24, including 61% in Tier-2 cities and 66% of retirees. Those figures pre-date the 2025 rebate increase, so they should not be assumed to hold today.

2.2 Tax planning and investment behaviour

Chittibabu and Dhakshayini (2024) surveyed 100 salaried individuals in Bengaluru with a descriptive design to test whether awareness of tax-saving instruments is related to investment patterns, and concluded that better literacy and personalised advice would help people choose investments that serve both tax and growth goals. Hamsini et al. (2025) used three computed case studies—a single professional, a married employee and a retired senior citizen—to compare the regimes for Bengaluru residents. The three-profile typology used here follows that approach, but the profiles, location, legal basis and numbers in this paper are different and are recomputed from first principles.

2.3 Research gap

Three gaps emerge. First, evidence from Bihar's capital is absent. Second, most computations rely on rules that have since changed. Third, few studies report how much deduction an employee must claim before the old regime wins, which is the number a taxpayer actually needs. This paper addresses all three.

3. OBJECTIVES AND RESEARCH QUESTIONS

- To compare tax liability under the old and new regimes for three Patna-based salaried profiles under Tax Year 2026-27 rules (RQ1).
- To estimate the total deductions an employee must claim for the old regime to equal the new regime across gross salaries of ₹13 lakh to ₹30 lakh (RQ2).
- To test whether the preferred regime changes when earlier (FY 2023-24) rules are applied to the same profiles (RQ3).
- To derive practical recommendations for employees, employers, advisers and policymakers in Bihar (RQ4).

4. SCOPE OF THE STUDY

The study is confined to resident individuals employed or formerly employed in Patna's organised sector: government, public-sector banking, higher education and IT/ITES. It covers three life stages—a single young professional, a married employee with dependants and liabilities, and a retired senior citizen—and the instruments most used locally: EPF, PPF, NPS, ELSS, health and life insurance, and home-loan principal and interest. Surcharge-attracting incomes (above ₹50 lakh), non-residents and business income are outside scope.

5. RESEARCH METHODOLOGY

5.1 Design

The study uses a comparative, case-based computational design. Each profile is an illustrative scenario modelled on common income structures in Patna's organised sector; the figures are assumptions chosen for transparency and are not averages drawn from a survey. No human participants were involved. Every liability is computed under both regimes with the same income, so any difference arises only from the rules.

5.2 Legal basis and assumptions

Rates and limits are those applicable for Tax Year 2026-27 (FY 2026-27) as summarised in Table 1. Provisions are cited by their 1961-Act numbers, which remain familiar to taxpayers; the Income-tax Act, 2025 re-numbered them. Patna is a non-metropolitan city for HRA purposes, so the exemption is limited to 40% of salary. Cess is 4% of tax. Case 3 applies the 30% statutory deduction on rental income, and the new regime's ₹75,000 standard deduction is applied to pension as well as salary. Marginal relief near the ₹12 lakh threshold was tested and did not apply to any case.

Table 1. Key parameters used for Tax Year 2026-27

Parameter	New regime (default)	Old regime
Slabs (below age 60)	Nil to ₹4L; 5% to ₹8L; 10% to ₹12L; 15% to ₹16L; 20% to ₹20L; 25% to ₹24L; 30% above	Nil to ₹2.5L; 5% to ₹5L; 20% to ₹10L; 30% above
Slabs (age 60–79)	Same as above	Nil to ₹3L; then as above

Parameter	New regime (default)	Old regime
Standard deduction (salary/pension)	₹75,000	₹50,000
Rebate	Up to ₹60,000 if taxable income ≤ ₹12L (Sec. 87A / now Sec. 156)	Up to ₹12,500 if taxable income ≤ ₹5L
Chief deductions available	Employer NPS contribution (80CCD(2)), 24(a) on let-out property	HRA, 80C, 80D, 80CCD(1B), 24(b), 80TTB, and others
Cess	4%	4%

Sources: Taxguru (2026); Sidhu (2026); Bhatt & Joshi Associates (2026); ClearTax (n.d.). Readers should confirm current limits on the Income Tax Department portal before relying on them.

5.3 Analytical steps

Figure 1 summarises the decision procedure applied to each profile. The break-even analysis then searches, for each gross salary between ₹13 lakh and ₹30 lakh in steps of ₹50,000, for the smallest total deduction (including the old-regime standard deduction) at which old-regime tax does not exceed new-regime tax. The rule-change test recomputes the new-regime tax under FY 2023-24 rules (slabs from ₹3 lakh, ₹50,000 standard deduction, rebate for income up to ₹7 lakh) while keeping all incomes fixed.

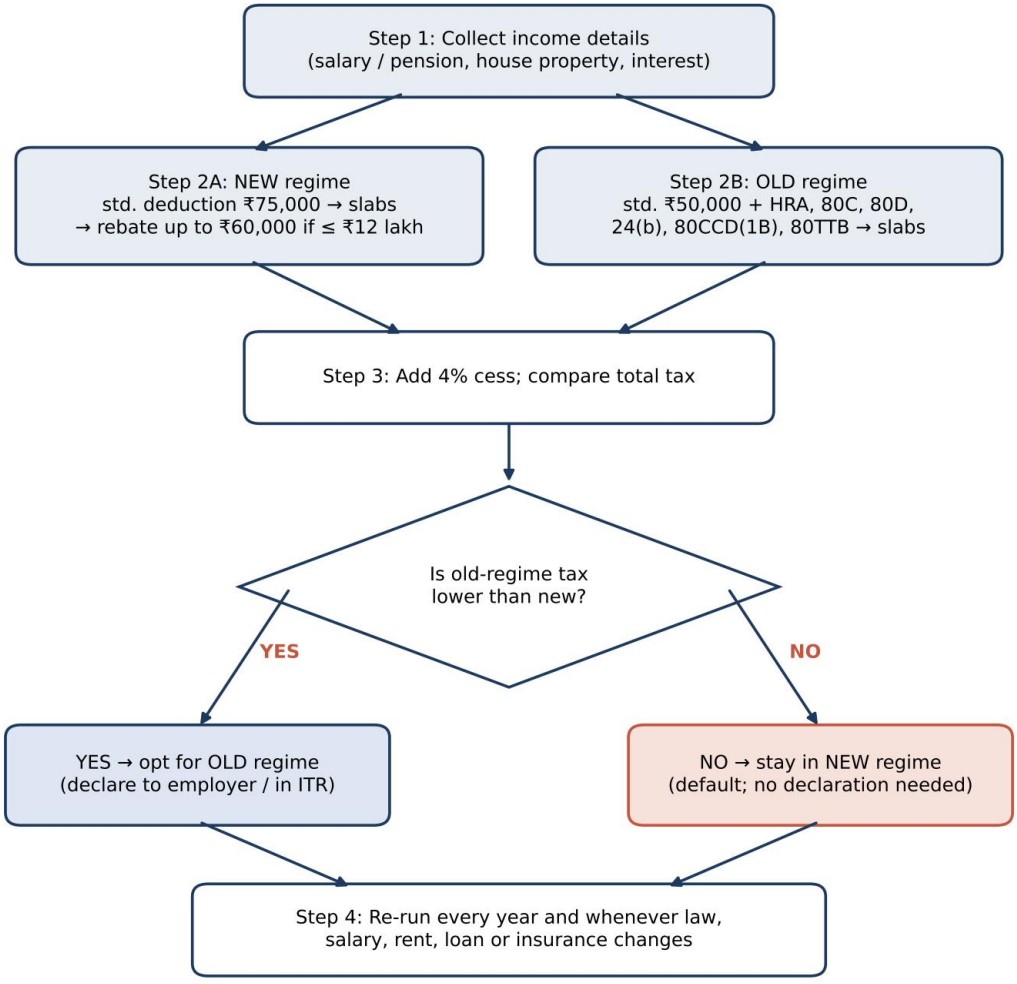

Figure 1. Decision procedure for choosing a tax regime (author's construction).

6. CASE STUDIES FROM PATNA

6.1 Case 1: Single professional (age 30, public-sector bank officer, Kankarbagh)

The officer earns ₹12,00,000 a year, pays rent in Kankarbagh, claims an HRA exemption of ₹1,00,000, and invests ₹1,50,000 under Section 80C through EPF and ELSS.

Table 2. Tax computation, Case 1 (₹)

Component	Old regime	New regime
Gross salary	12,00,000	12,00,000
Less: standard deduction	(50,000)	(75,000)
Less: HRA exemption	(1,00,000)	Not allowed
Less: Section 80C	(1,50,000)	Not allowed
Taxable income	9,00,000	11,25,000
Tax on slabs	92,500	52,500
Less: rebate	Nil	(52,500)
Add: 4% cess	3,700	Nil
Tax payable	96,200	0

The new regime leaves nothing to pay because taxable income of ₹11,25,000 is within the ₹12 lakh rebate limit, whereas the old regime costs ₹96,200 even after ₹3 lakh of deductions. The officer's habit of investing in 80C instruments remains useful for saving, but it no longer reduces tax in the new regime.

6.2 Case 2: Married employee with dependants (age 40, Bihar government service, Patliputra)

The employee earns ₹18,00,000, pays ₹2,00,000 of home-loan interest (Section 24(b)), pays ₹40,000 for family health insurance (Section 80D; taken here as ₹25,000 for self and family and ₹15,000 for parents below 60), and invests ₹1,50,000 under Section 80C. Because the employee owns the home, no HRA is claimed.

Table 3. Tax computation, Case 2 (₹)

Component	Old regime	New regime
Gross salary	18,00,000	18,00,000
Less: standard deduction	(50,000)	(75,000)
Less: home-loan interest, 24(b)	(2,00,000)	Not allowed
Less: health insurance, 80D	(40,000)	Not allowed
Less: Section 80C	(1,50,000)	Not allowed
Taxable income	13,60,000	17,25,000
Tax on slabs	2,20,500	1,45,000
Add: 4% cess	8,820	5,800
Tax payable	2,29,320	1,50,800

Despite claiming ₹4,40,000 in deductions, the employee pays ₹78,520 more under the old regime, a difference of 34.2% of the old-regime liability. The deductions still serve real goals—home ownership and family protection—but they are not a tax advantage at this income level.

6.3 Case 3: Retired senior citizen (age 65, retired university professor, Boring Road)

The retiree receives a pension of ₹8,00,000, gross rent of ₹4,00,000 and deposit interest of ₹3,00,000, a total of ₹15,00,000. Under the old regime the retiree also claims ₹50,000 under Section 80D for senior-citizen health insurance and ₹50,000 under Section 80TTB for deposit interest. Rent is reduced by the 30% statutory deduction, leaving ₹2,80,000 of house-property income in both regimes.

Table 4. Tax computation, Case 3 (₹)

Component	Old regime	New regime
Pension	8,00,000	8,00,000
Less: standard deduction	(50,000)	(75,000)
House property (rent less 30%)	2,80,000	2,80,000
Interest and other income	3,00,000	3,00,000
Less: 80D senior-citizen health insurance	(50,000)	Not allowed
Less: 80TTB deposit interest	(50,000)	Not allowed
Taxable income	12,30,000	13,05,000
Tax on slabs	1,79,000	75,750
Add: 4% cess	7,160	3,030
Tax payable	1,86,160	78,780

Here the new regime saves ₹1,07,380 (57.7%). The retiree's higher old-regime basic exemption (₹3 lakh) and senior-citizen deductions are outweighed by the new regime's lower rates between ₹8 lakh and ₹16 lakh. This challenges the common belief that pensioners are always better off in the old regime.

7. RESULTS AND DISCUSSION

7.1 Comparative liability (RQ1)

Table 5. Summary of results for Tax Year 2026-27 (₹)

Profile	Gross income	Old regime	New regime	Saving from new regime
Case 1: Bank officer, 30	12,00,000	96,200	0	96,200
Case 2: Govt. employee, 40	18,00,000	2,29,320	1,50,800	78,520
Case 3: Retiree, 65	15,00,000	1,86,160	78,780	1,07,380

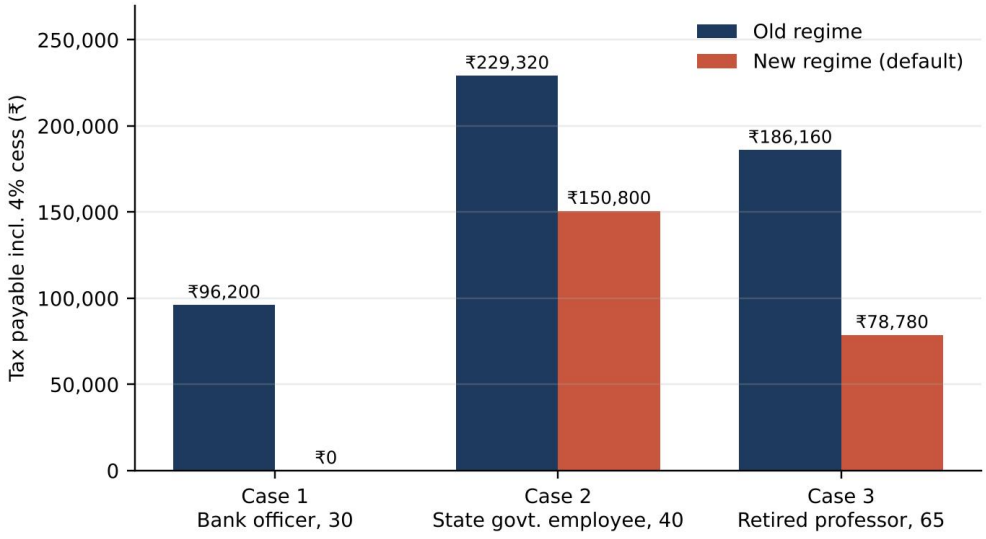

Figure 2. Tax payable under each regime, Tax Year 2026-27.

The new regime is cheaper in all three profiles. The advantage is largest in absolute terms for the retiree and largest

in relative terms for the bank officer, whose liability disappears entirely. Figure 3 shows why: deductions under the old regime do shrink taxable income, but the new regime's lower slab rates and higher rebate more than compensate.

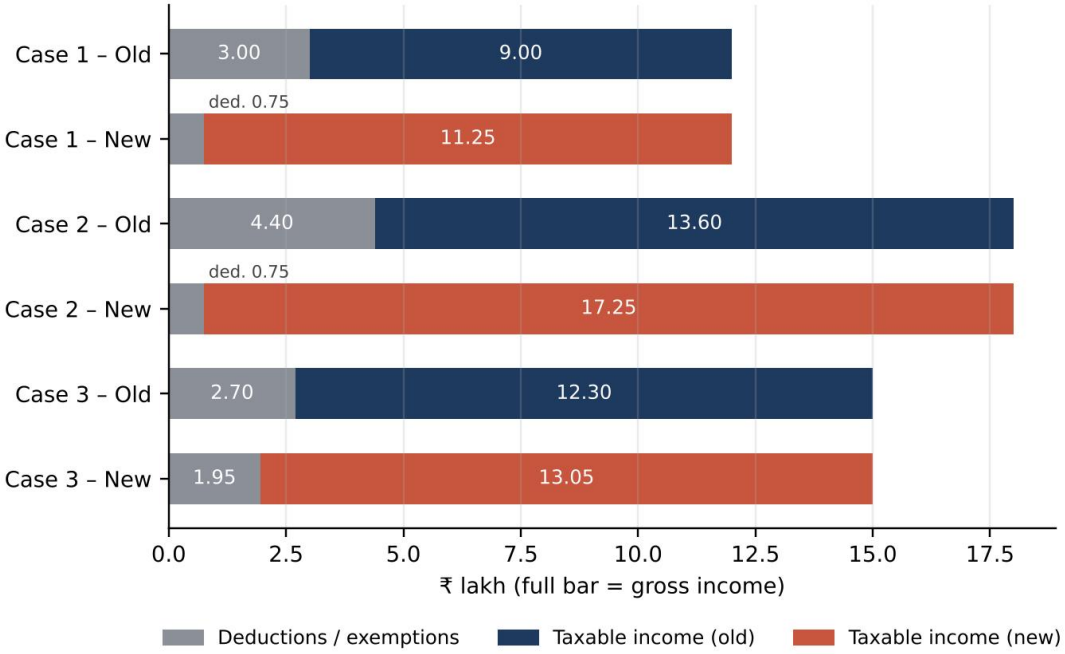

Figure 3. From gross income to taxable income under each regime (₹ lakh).

7.2 How many deductions are enough? (RQ2)

Figure 4 plots the total deductions required for the old regime to match the new regime. For salaries up to ₹12.75 lakh the new-regime liability is zero, so the old regime cannot win unless deductions reduce taxable income to ₹5 lakh or below. Beyond ₹13.5 lakh the threshold climbs from about ₹5.6 lakh to about ₹8.5 lakh at ₹24.5 lakh and above (Appendix A). An employee who uses the standard deduction, 80C (₹1.5 lakh), 80D (₹25,000), 80CCD(1B) (₹50,000) and ₹2 lakh of home-loan interest reaches only ₹4.75 lakh, before any HRA. Case 2's ₹4.40 lakh is therefore typical of a well-planned employee and still falls short of the ₹6.95 lakh needed at ₹18 lakh.

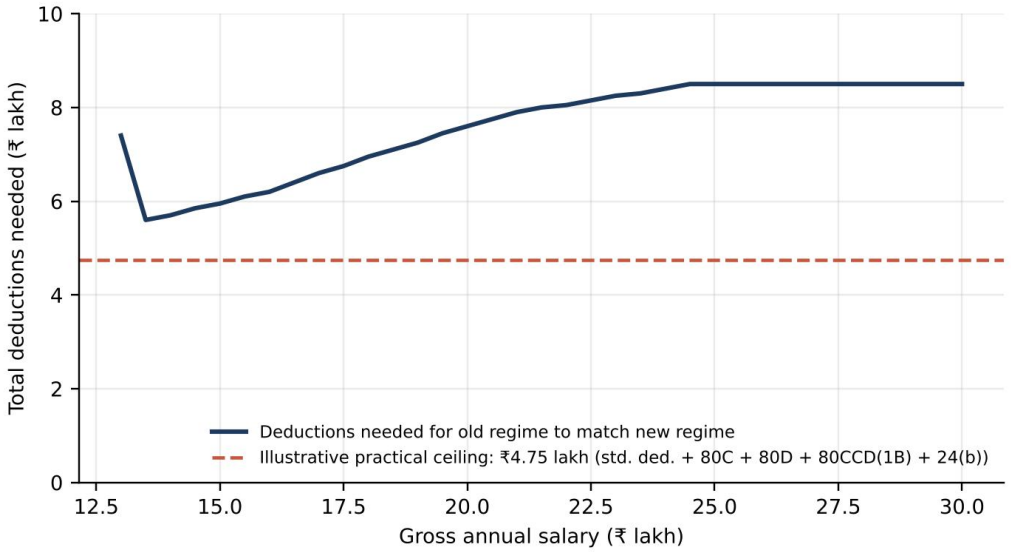

Figure 4. Break-even deductions for the old regime (resident individual below 60, salary income only). The dashed line excludes HRA.

7.3 Sensitivity to rule changes (RQ3)

Table 6. New-regime saving relative to the old regime under two rule sets (₹; negative = old regime cheaper)

Profile	FY 2023-24 rules	Tax Year 2026-27 rules
Case 1	10,400	96,200
Case 2	-4,680	78,520
Case 3	65,520	1,07,380

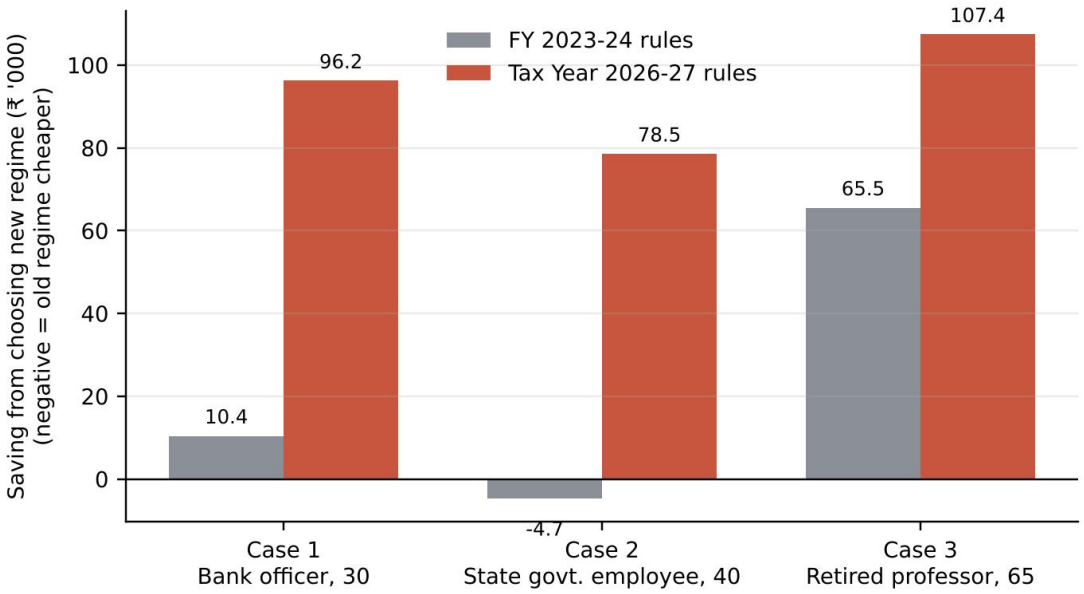

Figure 5. Effect of the rule change on the new-regime advantage.

Under FY 2023-24 rules, Case 2 would have paid ₹4,680 less in the old regime; under current rules it pays ₹78,520 less in the new one. The sign reversal shows that a decision which was right once can be wrong after one Budget. An employee who copied a colleague's regime choice, or a payroll default carried over from an earlier year, could therefore overpay by tens of thousands of rupees. This is the practical meaning of tax literacy: not memorising sections, but re-running a short comparison each year.

7.4 DISCUSSION

These results do not say that the old regime is obsolete. They say that its advantage now begins at a much higher level of deductions than most Patna salaried households can reach. Larger HRA claims in costlier cities, very large home loans, or substantial NPS contributions in the old regime could still tip the balance, which is why the break-even figures matter more than any rule of thumb. The conclusions also differ from earlier case-study papers, including ones set in Bengaluru, that found the old regime superior for all three life stages; those findings reflect earlier rules, a different city and different income assumptions.

8. POLICY IMPLICATIONS AND RECOMMENDATIONS

R1. Put a two-regime comparison inside the payroll workflow. Because the better regime can reverse after a Budget (Table 6), employers should show each employee the tax under both regimes when annual declarations are collected in April. The government could add a comparison calculator to the tax portal that pre-fills figures from the salary and annual information statements.

R2. Make financial-literacy training recurring and local. With only 27.18% of adults financially literate nationally and a 29%–21% gender gap (Reserve Bank of India, n.d.), brief annual workshops run by banks, universities and state departments in Hindi and local languages, and with separate sessions for women and retirees, would reach those least likely to seek paid advice.

R3. Shift the debate from larger deductions to better defaults. Raising limits such as Section 80C would help only the old regime, which Table 5 and Figure 4 suggest benefits few employees at current levels. A better use of policy effort is to keep the new regime's default simple and widen the deductions that remain available within it, such as

employer contributions to the National Pension System under Section 80CCD(2), which is capped at 14% of basic pay and dearness allowance for all employers (Bhatt & Joshi Associates, 2026).

R4. Use payroll nudges for long-term saving. If tax saving no longer motivates 80C investment for most employees, saving habits need another prompt. Auto-escalating NPS or provident-fund contributions, with opt-out rather than opt-in, can maintain retirement saving without relying on year-end tax-driven purchases.

R5. Give pensioners tailored advice. Retirees with rent and interest income, like Case 3, face a computation that differs from salaried staff. Banks and pension-disbursing offices could provide a short worksheet that reflects the senior-citizen exemption and 80TTB.

9. LIMITATIONS AND FUTURE RESEARCH

The case profiles are illustrative rather than empirical, so the results show how the rules work and not how Patna's employees actually behave. Computations assume resident individuals, a single income year, no surcharge and the rules published as of November 2026; later amendments or notifications may change the figures. Sections are cited by 1961-Act numbers, and the corresponding 2025-Act sections should be checked before the paper is submitted. The next step is a primary survey of Patna's salaried employees, with a sample size justified in advance, measuring awareness of the two regimes, the regime actually chosen, the deductions claimed and the tax overpaid. Hypotheses could test whether awareness differs by sector, gender, age or income, and whether workplace training changes choices.

10. CONCLUSION

This paper compared old- and new-regime tax for three Patna salaried profiles under the Income-tax Act, 2025. The new regime gave the lower liability for the young bank officer, the married government employee and the retired professor alike, and the old regime would need roughly ₹5.6–8.5 lakh of deductions to compete at salaries of ₹13.5–30 lakh. The same profiles would have been ranked differently under FY 2023-24 rules, so no regime choice should be treated as permanent. Practical financial literacy therefore means a short annual calculation supported by employers, advisers and a simple government tool. Future work should replace illustrative profiles with survey evidence from Patna.

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APPENDIX A. BREAK-EVEN DEDUCTIONS (TAX YEAR 2026-27)

Smallest total deduction (including the ₹50,000 old-regime standard deduction) at which old-regime tax is no greater than new-regime tax, for a resident individual below 60 with salary income only. New-regime tax uses the ₹75,000 standard deduction, the ₹60,000 rebate and marginal relief. Values are on a ₹5,000 grid.

Table A1. Break-even deductions at selected salaries

Gross salary (₹)	Deductions needed (₹)	As % of gross
13,50,000	5,60,000	41.5%
15,00,000	5,95,000	39.7%
18,00,000	6,95,000	38.6%
20,00,000	7,60,000	38.0%
25,00,000	8,50,000	34.0%
30,00,000	8,50,000	28.3%

Note: Computations were produced by a short script applying the slab, rebate, marginal-relief and cess rules in Table 1, and the three case tables were checked by hand. Surcharge is ignored because all incomes are below ₹50 lakh.