



Anticipated Behavioral Response Of Salaried Taxpayers To Changes In The Income Tax Regime: A Pre-Budget Study

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Abstract: Tax policy is very important in determining how people handle their money. This is especially true for salaried taxpayers, whose savings and investment decisions are closely tied to income tax rules. The income tax structure changes so often and taxpayers are always excited about the Union Budget; taxpayers often act based on what they think will happen rather than what happens. The goal of this study is to look at how salaried taxpayers are likely to act if there are changes to the income tax system in the next budget.

The study is based on a survey done before the budget that looks at what taxpayers expect, how much they plan to save, why they want to delay investments, and what they prefer: tax simplification or incentives. The study used both primary and secondary data. Primary data was obtained via a structured questionnaire distributed to salaried individuals, whereas secondary data was derived from government publications, budget documents, and existing literature. The simple percentage method and descriptive method are used to do the analysis.

The study's results show that salaried taxpayers' plans for saving and investing are greatly affected by uncertainty about changes to tax policy. Many people who answered the survey say they are putting off making investment decisions and being careful with their money because they expect tax reforms to happen. The study concludes that comprehending taxpayer behaviour prior to the budget announcement can yield significant insights for policymakers in crafting a balanced tax structure that fosters both simplicity and long-term savings.

I. INTRODUCTION

The income tax generates income for government and shapes how people act with their money i.e. financial behaviour of people and direction of economy. Those who pay taxes on their salaries, the rules about income tax not only say how much they must pay, but they also have a big effect on savings, investment planning, and long-term financial decisions. Over the years, the Indian income tax system has changed many times to make it easier to pay taxes, increase the number of people who pay taxes, and encourage people to pay their taxes on time.

The introduction of a different income tax system, along with frequent changes to tax brackets, exemptions, and deductions through successive Union Budgets, has changed how people think about and react to tax policies. These changes are meant to make things easier and more flexible, but they have also made taxpayers feel unsure about how to plan for their taxes in the future. Because of this, people often act in certain ways with their money not only because of the tax laws that are already in place, but also because they are waiting for the next budget announcement.

Before the Union Budget, salaried taxpayers are eagerly waiting to see if there will be any changes to tax rates, exemptions, and deductions. People often make short- and long-term savings and investment decisions based on what they think will happen. Many people put off or change their plans to invest until they know more about tax policies that might be announced in the budget. These kinds of reactions show how important it is to look at what taxpayers expect and think before the policy changes happen.

Most of the studies which are already there mainly focuses on post budget analysis or on comparing different tax systems even when study of behavioural factors is more relevant and important these days. There has been inadequate emphasis on understanding taxpayers' pre-budget behavioural responses, particularly concerning savings and investment decisions. This study aims to fill the research gap by examining the effects of expected changes in the income tax system on the financial behaviour of salaried taxpayers prior to the Union Budget. The study aims to provide insights that may assist policymakers in developing tax policies that balance simplicity, revenue objectives, and the promotion of long-term savings by analysing taxpayer expectations and be behavioural intentions before the budget announcement.

II. LITERATURE REVIEW

Several studies have shown how tax regime impact financial behaviour of salaried taxpayers, showing how tax laws affect savings, investment choices, and patterns of compliance. Conventional economic theories propound that individuals react rationally to tax incentives by altering their savings and investment decisions to reduce tax liability. Although, recent research in behavioural economics shows that perceptions, expectations, and uncertainty about policy changes among people also affect how they act as taxpayers.

Gupta and Rao (2018) studied effect of income tax breaks on household savings in India. They concluded that tax breaks under Section like 80C and 80D made people more likely to invest in provident funds, insurance and other long-term instruments. The researchers found that tax breaks are a big part of getting money saved in a structured way by salaried employees who have taxable income.

Kumar and Bansal (2019) looked at reaction of taxpayers to tax reforms and noted that recurrent changes in tax policies results in confusion and second thoughts regarding financial planning. The result of the research shows that ambiguity concerning approaching tax regulations leads to delayed investment choices, particularly among middle-income taxpayers.

Sharma (2020) studied behaviour of people at the time of paying taxes in India. The results show that people more likely to pay their taxes on their own when tax system is simple, but this also leads to less invest in traditional tax-saving instruments. The study focused on bringing trade-off between understanding taxes easily and the goal of encouraging people to save money in the long term through tax breaks.

Agarwal and Mehta (2021) examined the implementation of the alternative income tax regime in India, assessing taxpayer awareness and preferences. Their findings indicated that several taxpayers valued reduced tax rates and streamlined filing processes, still a good number of taxpayers remained anxious due to the elimination of exemptions and the potential for future policy modifications communicated through annual budgets.

The research conducted by Singh (2022) recently, emphasized the importance of expectations in financial decision-making. The study reflected that pre-budget announcements, media discourse, and policy debates do affect taxpayer sentiment, repeatedly resulting in a wait-and-see strategy in investment behaviour prior union budget.

While current literature gives significant insights on effect of tax policies on savings and compliance, most studies focus only on post-policy analysis. There is lack of research examining pre-budget behavioural responses, specifically concerning the impact of anticipated tax reforms on the savings and investment planning of salaried taxpayers. This study aims to fill this gap by studying how taxpayers act before the Union Budget announcement. This forms the body of research on taxation and behavioural economics.

III. OBJECTIVES OF THE STUDY

1. To examine the anticipated behavioural response of salaried taxpayers towards possible changes in the income tax regime in the upcoming Union Budget.
2. To examine the influence of pre-budget expectations on the savings behaviour of salaried taxpayers.
3. To study the influence of tax policy uncertainty on investment decision-making among salaried individuals.

4. To assess taxpayer preference between tax simplification and tax-saving incentives in the context of expected budgetary changes.
5. To provide policy-oriented suggestions based on taxpayer expectations to support effective tax planning and long-term savings.

IV. RESEARCH METHODOLOGY

The present study adopts a **descriptive and analytical research design** to examine the anticipated behavioural response of salaried taxpayers towards possible changes in the income tax regime prior to the Union Budget. The study aims to analyze taxpayer expectations, savings intentions, and investment behaviour in the context of tax policy uncertainty.

i. Sources of Data

The study is based on both **primary and secondary data**. The primary data and secondary data have been gathered through a structured questionnaire distributed to salaried taxpayers and from government publications, union budget documents, reports generated by Income Tax Department, published research journals and relevant websites respectively.

ii. Sample Size and Sampling Technique

The sample size consists of **130 salaried taxpayers** and **convenience sampling method** was used to study the behaviour of taxpayers. The respondents were selected from urban areas mainly from the Delhi-NCR region to ensure objectives of the study are met.

iii. Data Collection Method

Primary data was gathered using a self-administered structured questionnaire, which covered questions including, awareness among taxpayers, expectations regarding forthcoming tax changes, savings behaviour and investment decisions. The questionnaire was designed in a way to understand pre-budget perception and behavioural intention of the respondents.

iv. Tools of Analysis

The data collected was analysed using simple statistical tools which includes, percentage analysis and descriptive tables. Graphical representation was used to have a broader and better interpretation of the results, wherever needed.

v. Period of Study

The study was conducted during the **pre-budget period**, prior to the announcement of the Union Budget, to capture genuine taxpayer expectations and behavioural responses.

V. HYPOTHESIS OF THE STUDY

Hypothesis 1: Impact on Savings Behaviour

H0₁ (Null Hypothesis)

Pre-budget expectations regarding changes in the income tax regime have no significant impact on the savings behaviour of salaried taxpayers.

H1₁ (Alternative Hypothesis)

Pre-budget expectations regarding changes in the income tax regime have a significant impact on the savings behaviour of salaried taxpayers.

Hypothesis 2: Impact on Decisions related to Investment

H0₂ (Null Hypothesis)

Uncertainty of tax policy prior to the announcement of union budget does not significantly influence the decisions of salaried taxpayers related to investment.

H1₂ (Alternative Hypothesis)

Uncertainty of tax policy prior to the announcement of union budget significantly influence the decisions of salaried taxpayers related to investment.

VI. DATA ANALYSIS AND INTERPRETATION

The study is based on primary data collected using a structured google form questionnaire from 130 salaried taxpayers. The data was analyzed using percentage analysis, charts and interpretative techniques with the help of MS Excel.

Table 1: Demographic Profile of Respondents

Age Group	Frequency	Percentage (%)
Below 25	14	10.77
25-35	99	76.15
36-45	14	10.77
46-55	3	2.31
Total	130	100

Age Group
130 responses

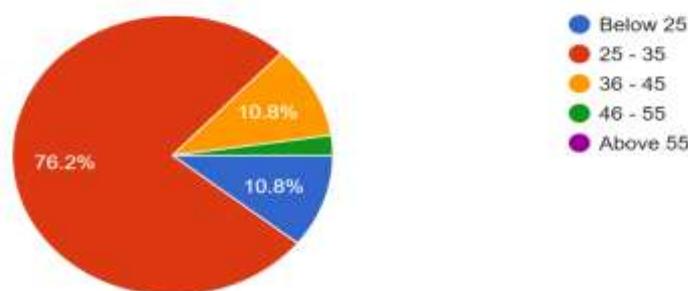


Figure 1

Interpretation

Most of the respondents (76.15%) were between the ages of 25 and 35, which means that the study mostly looks at the tax behaviour of young and early-career salaried taxpayers.

Table 2: Gender-wise Distribution

Gender	Frequency	Percentage (%)
Male	77	59.23
Female	51	39.23
Prefer not to say	2	1.54
Total	130	100

Gender
130 responses

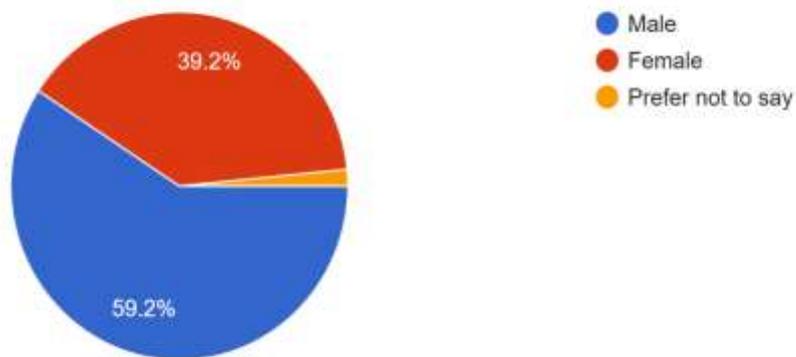


Figure 2

Interpretation

There is an even gender representation in the sample, with 59.23% of respondents being male and 39.23% being female.

Table 3: Annual Income-wise Distribution

Annual Income	Frequency	Percentage (%)
Below 5 Lakhs	35	26.93
5-10 Lakhs	41	31.54
10-15 Lakhs	19	14.62
Above 15 Lakhs	35	26.92
Total	130	100

Annual Income

130 responses

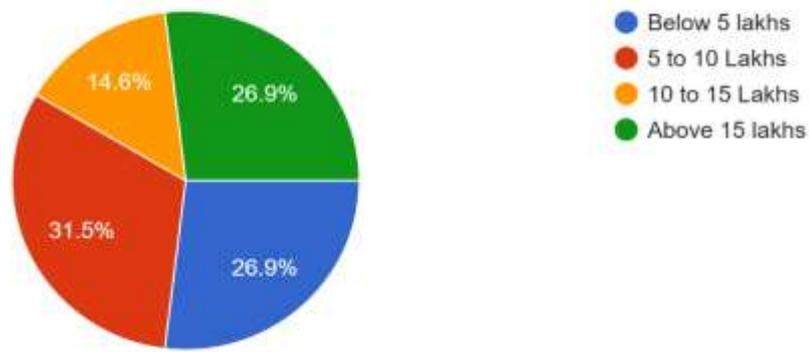


Figure 3

Interpretation:

Most of the respondents are in the middle-income group, and there are equal numbers of people in the lower- and higher-income groups. This makes it possible to make meaningful behavioral comparisons.

Table 4: Awareness about Dual Tax Regime

Awareness Level	Frequency	Percentage (%)
Yes	112	86.15
No	18	13.85
Total	130	100

Are you aware that there are two income tax regimes (old & new) in India?

130 responses

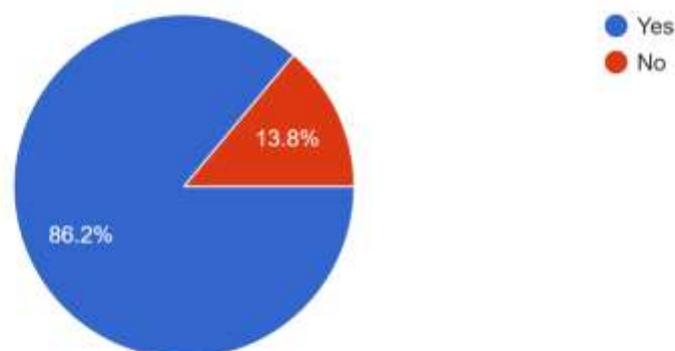


Figure 4

Interpretation:

A large portion of salaried taxpayers (86.15%) among respondents know that there are both old and new income tax systems. This shows that the respondents have good knowledge of tax regimes prevalent in India.

Table 5: Preferred Income Tax Regime

Tax Regime	Frequency	Percentage (%)
New Tax Regime	74	56.92
Old Tax Regime	27	20.77
Not Sure	29	22.31
Total	130	100

Which tax regime are you currently opting for?

130 responses

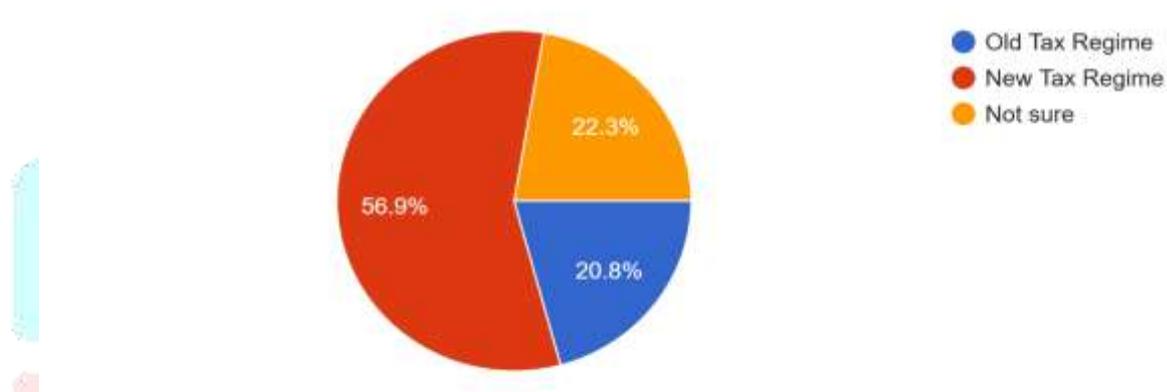


Figure 5

Interpretation

More than half of the salaried taxpayers (56.92%) prefer the new tax system. This shows that taxpayers are slowly changing their behaviour to pay less in taxes with fewer deductions. However, a large number (22.31%) are still unsure, which shows that they are confused and hesitant about the transition.

Table 6: Influence of Tax Benefits on Savings & Investment Decisions

Response	Frequency	Percentage (%)
Strongly Agree	40	30.77
Agree	44	33.85
Neutral	37	28.46
Disagree	6	4.62
Strongly Disagree	3	2.31
Total	130	100

Do tax benefits influence your savings and investment decisions?

130 responses

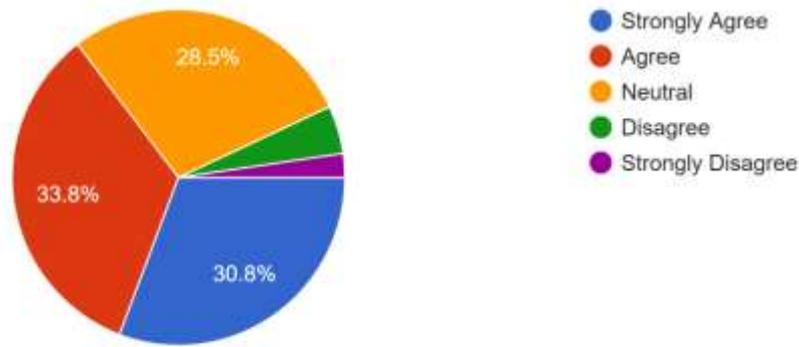


Figure 6

Interpretation

The majority (64.62%) of respondents agree that tax benefits announced in budget have a huge impact on decisions relating to saving and investing. This proves tax benefits provided do affect how salaried taxpayers plan their finances.

Table 7: Reduction in Tax-Saving Investments After New Tax Regime

Response	Frequency	Percentage (%)
Yes	46	35.38
No	50	38.46
To Some Extent	34	26.15
Total	130	100

After the introduction of the new tax regime, have you reduced investments in tax-saving instruments?

130 responses

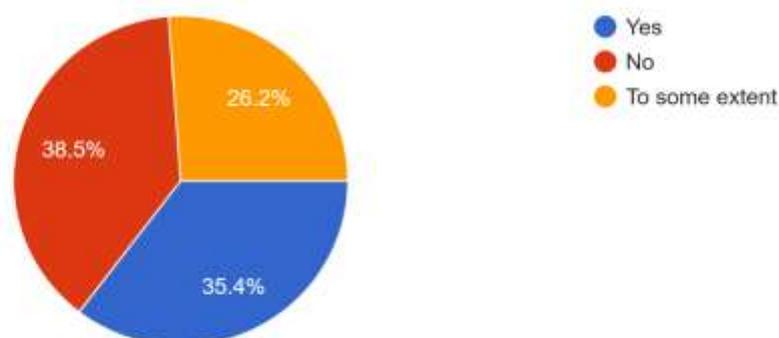


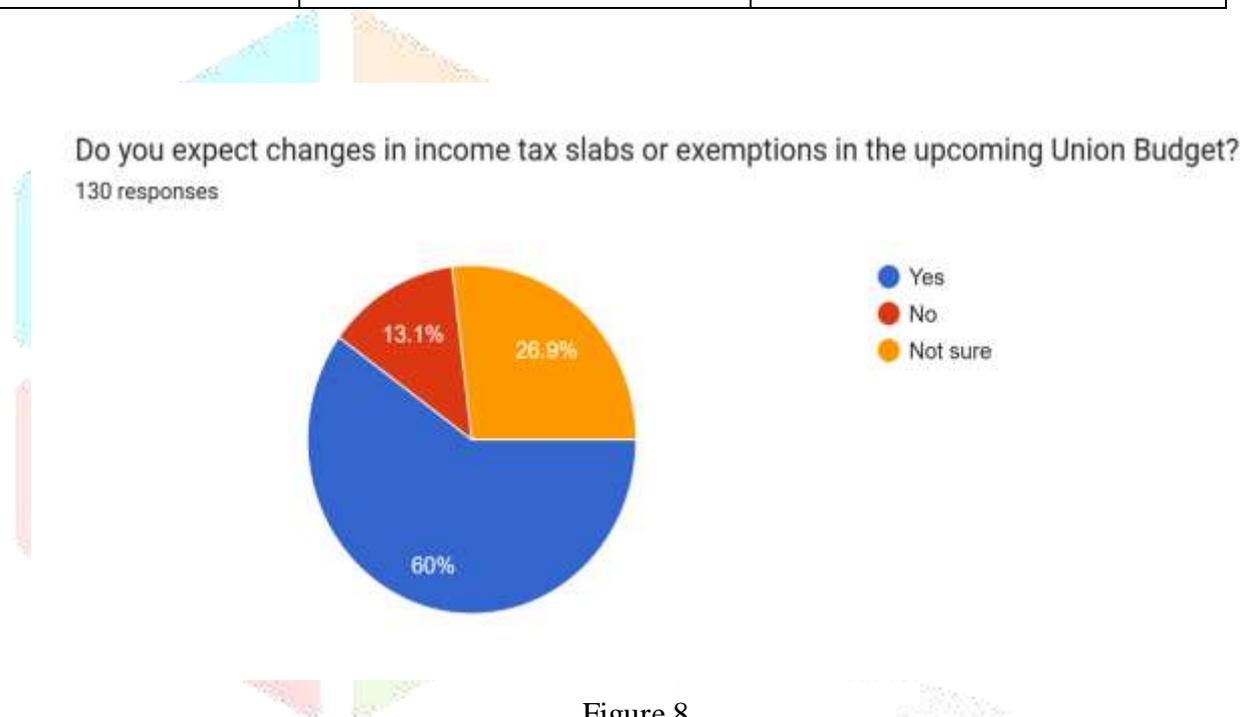
Figure 7

Interpretation

The results reflect that behaviour of taxpayer has changed in different ways. 35.38% of respondents cut back on tax-saving investments when the new rules came into effect, while 38.46% did not. This suggests that people are following their old investment habits even when new tax preferences are in place.

Table 8: Expectation of Changes in Upcoming Union Budget

Response	Frequency	Percentage (%)
Yes	78	60
Not Sure	35	26.92
No	17	13.08
Total	130	100



Interpretation

More than half of the respondents (60%) expect changes in tax brackets or exemptions in the upcoming budget. This shows that taxpayers are sensitive to the fiscal announcements.

Table 9: Delay in Investment Due to Uncertainty about tax changes in upcoming budget

Response	Frequency	Percentage (%)
Yes	37	28.46
Maybe	24	18.46
No	69	53.08
Total	130	100

Have you postponed or delayed any investment decisions due to uncertainty about tax changes in the upcoming budget?

130 responses

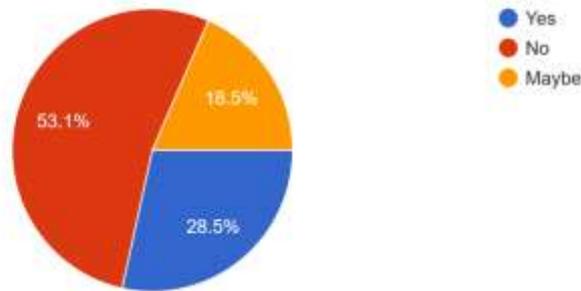


Figure 9

Interpretation

53.1% of the respondents did not put off investing due to expected uncertainties in budget and 47% of them either did or thought of putting off investing. This shows that uncertainties expected in budget has a direct effect on how people utilise their money.

Table 10: Preferred Future Tax Policy Direction

Preference	Frequency	Percentage (%)
Lower Tax Rates	45	34.62
Balanced Approach (Rates + Incentives)	39	30
More Deductions & Exemptions	26	20
Simple Tax System (Fewer Compliances)	20	15.38

What would you prefer more in future tax policy?

130 responses

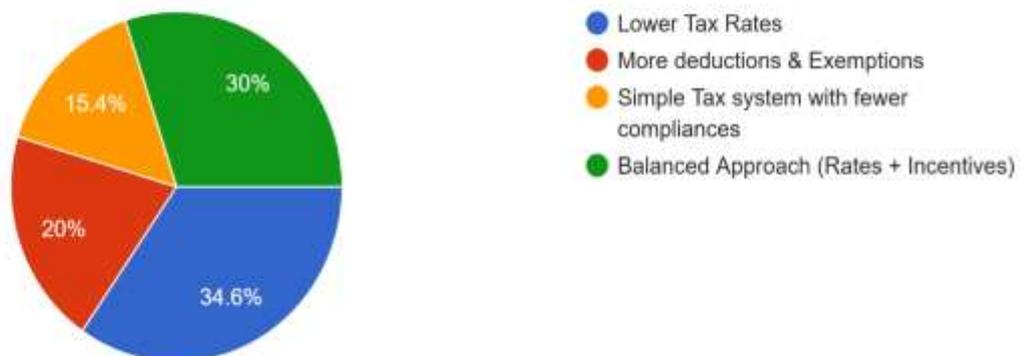


Figure 10

Interpretation

A major portion of taxpayers want lower tax rates or a balanced policy. This shows that people are slowly moving away from relying heavily on exemptions and toward policies which are simple and easy to understand and more predictable.

Table 11: Investment Instruments Used for Tax Saving

Instrument	Frequency	Percentage (%)
PPF / EPF / NPS	Highest	Major Share
Insurance (LIC, Term Plans)	High	Significant
ELSS Mutual Funds	Moderate	Growing
Others	Low	Limited

Which instruments do you mainly invest in for tax-saving purposes?

130 responses

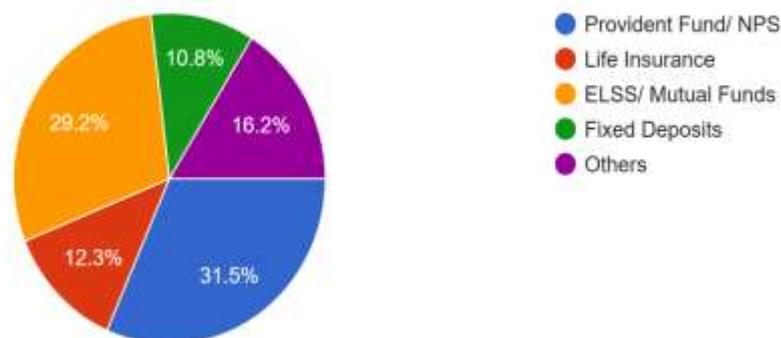


Figure 11

Interpretation

The traditional tools like PPF, EPF and insurance are still preferred over other tax saving instruments. This shows that even after the changes in policy, salaried taxpayers prefer low-risk and familiar ways to save on taxes. Despite the implementation of the new tax regime, the results show behavioural inertia and risk aversion i.e. reluctant to take risk among middle-income earners.

Table12: Change in Investment Behaviour After New Tax Regime

Response	Frequency	Percentage (%)
Yes	46	35.38
To Some Extent	34	26.15
No	50	38.46
Total	130	100

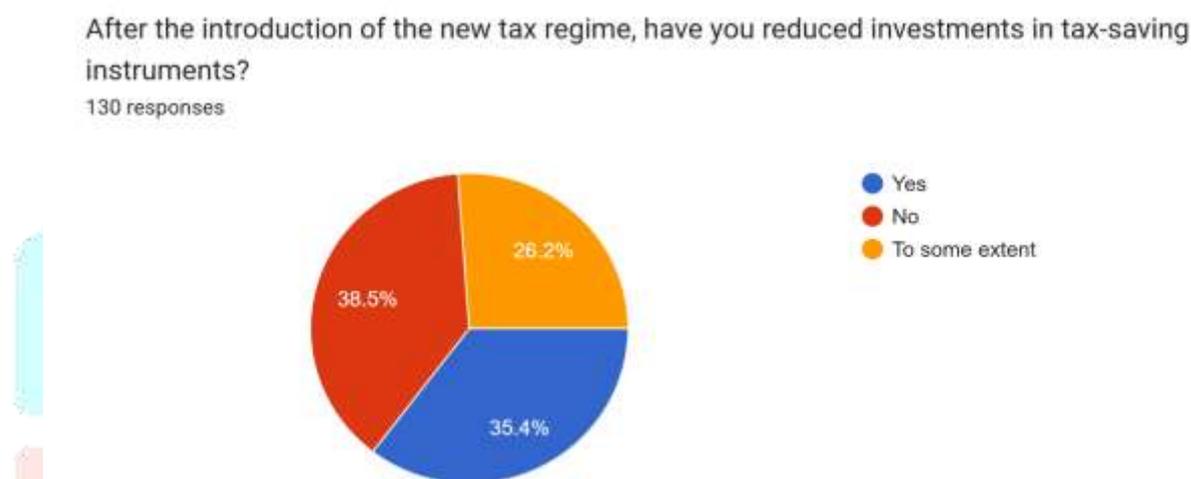


Figure 12

Interpretation

About 61.53% of respondents have either cut back on or completely stopped making tax-saving investments. This clearly shows that the way the policy was designed, it has changed behaviour of people. But 38.46% of the respondents didn't see a decrease suggests that old ways of planning taxes are also in use.

VII. OVERVIEW OF THE RESULTS

The current study investigated the behavioural response of salaried taxpayers to modifications in the income tax system, specifically regarding the transition between the old and new tax regimes and expected alterations in the Union Budget. The analysis of primary data from 130 salaried taxpayers yields the following significant findings:

1. The study shows that large number of salaried taxpayers know about dual income tax regimes. This means that people are becoming more aware of their finances and how to get tax-related information.
2. Most people who answered the survey clearly prefer the new tax system because they think it is easier and has lower tax rates. However, many taxpayers are still unsure or still prefer the old system because of the deductions and exemptions.
3. Tax breaks are a big part of which affects how people save and invest i.e. deductions and exemptions are very important to their financial planning, which shows significance of tax breaks to behaviour of taxpayer.

4. The new tax system has caused remarkable changes in the way people make investing decisions. Majority of taxpayers have either stopped or cut back on their investments in traditional tax-saving tools and those who keep investing in the same way show behavioural inertia.
5. The research shows that frequent or expected changes in tax policy influence long-term financial planning. A significant number of respondents either delay or re-consider investment choices due to uncertainty surrounding forthcoming budget announcements.
6. Respondents strongly believe that policymakers should anticipate reaction of taxpayers while framing tax laws. This shows that policies should be sensitive towards taxpayers.
7. Most of the taxpayer desire for lower tax rates and a balanced tax structure that combines reasonable rates with targeted incentives and not frequent changes in the tax structure.

Overall results reflects that income tax policy is a strong behavioural tool that influences the decision of salaried taxpayers related to saving, investing and other financial decisions

VIII. SCOPE OF THE STUDY

The scope of the present study on behaviour of taxpayer prior budget is as follows:

1. The study covers only **salaried taxpayers** as this group of taxpayer gets directly impacted by changes in income tax slabs, deductions and compliance structures.
2. The research examines **behavioural aspects of taxation**, including awareness, regime preference, investment behaviour, and responses to tax policy uncertainty.
3. The study covers responses related to the **old and new income tax regimes**, particularly in the context of anticipated budgetary changes.
4. The analysis is based on **primary data collected through a structured questionnaire**, enabling direct insight into taxpayer perceptions and behaviour.
5. The findings of the study can be useful for **policymakers, tax authorities, academicians, and financial planners** to understand how tax reforms influence individual financial behaviour.
6. The study links tax structure changes with taxpayer decision-making contributing to the growing literature on **behavioural public finance**.

IX. LIMITATIONS OF THE STUDY

1. The sample size of 130 respondents from Delhi NCR may restrict the generalisability of the findings to the entire population of salaried taxpayers in India.
2. The answers may be affected by personal bias, mistakes in perception or the desire to please others as data gathered is self-reported.
3. The study only looks at people who work for someone else and not people who are self-employed, own a business, or are professionals, whose tax behaviour may be very different.
4. The research employs a cross-sectional methodology, documenting taxpayer behaviour at a specific moment. Behavioural responses may vary with actual budget announcements or policy implementation.
5. The study does not consider differences in tax behaviour between states or between rural and urban areas, so regional diversity is limited.
6. No advanced econometric methods were used due to limited sample size and time.

X. CONCLUSION

The present study gives important policy-relevant insights into the behavioural responses of salaried taxpayers towards changes in income tax regime in India. The findings clearly indicate that income tax policy functions not only as a fiscal instrument for revenue mobilisation but also as a behavioural policy tool that directly influences individual saving, investment, and financial planning decisions. As tax system in India is reformed every year to enhance efficiency and compliance of tax structure, it becomes critical to understand behaviour of taxpayer and design tax policy effectively.

The empirical evidence collected using questionnaire indicates that the transition from the old regime has not been uniform. Although, the new tax regime has gained acceptance due to lower tax rates and simplified structures. A significant portion of salaried taxpayers still rely on deductions and exemptions as an instrument for savings and risk mitigation. This highlights a key challenge for policymakers that is **simplification of tax policies done without adequate behavioural alignment, may limit effectiveness of tax reforms**. Therefore, it is significant for policymakers to consider behavioural preferences, habits, and perceived financial security as it plays a decisive role in shaping taxpayer responses.

The study further demonstrates that tax incentives remain a powerful driver of savings and investment behaviour. While framing policy, it should be considered that sudden withdrawal of deductions may weaken long-term household savings and deform investment patterns. A **gradual and calibrated approach**, wherein incentives are selectively retained or redesigned to align with broader economic objectives, may result in smoother behavioural adjustment and stronger public acceptance of tax reforms.

Another critical policy implication emanating from the study relates to **policy uncertainty and frequency of changes in tax reforms**. The anticipation of tax reforms in union budget has been found to impact investment timing and financial decision-making of salaried taxpayers. This underscores the importance of **policy stability and predictability**. Frequent changes in tax provisions, even when well-intentioned, may undermine taxpayer confidence and reduce the behavioural effectiveness of fiscal measures. Long-term tax roadmaps and advance policy communication can help mitigate uncertainty and encourage rational financial planning. The strong consensus among respondents regarding the need to consider taxpayer behaviour while framing tax policies reinforces the relevance of behavioural public finance in the Indian context. Policymakers should incorporate behavioural insights, such as risk aversion, inertia, and preference for certainty, into tax design. Simplified regime selection, targeted nudges, and transparent communication can improve voluntary compliance and reduce administrative burden.

In conclusion, the study emphasises that future income tax reforms should move beyond a purely structural approach and adopt a **behaviour-sensitive policy framework**. A balanced tax policy that combines simplicity, stability, and strategically designed incentives is more likely to achieve policy objectives of compliance, equity, and sustainable economic growth. The findings of this study provide actionable inputs for policymakers and budget planners in designing income tax reforms that are economically and behaviourally efficient and effective respectively.

XI. SUGGESTIONS

Based on the study's results, the following suggestions are made:

1. Tax policy should be stable so that taxpayers can plan for the long term without worrying about changes.
2. The government should create a balanced tax system that includes lower tax rates and selective, targeted incentives to make the switch from the old tax system to the new one easier.
3. Awareness programs and knowledge broadening sessions for taxpayers should be given more weightage and conducted frequently so that they can make smart decisions while choosing tax regime and plan their finances in a better way.
4. Policymakers should use behavioral insights while making tax reforms to understand taxpayers' reaction which is affected by psychological and behavioral factors.
5. Compliance procedure should be made easier to encourage people to pay the taxes.
6. The future tax reforms should be made after analyzing practices related to saving, investing and spending taxpayers and not only consider how much income will it bring in.