

Impact of Direct Tax Reforms in FY 2026–27 on Individual Financial Planning in India

Dr. Franklin Salvi¹ and Mr. Siddharth Mudaliar²

Associate Professor, Commerce Department¹

Post-Graduate Student, Commerce Department²

, St. Vincent College, Pune, India

franklin.salvi@gmail.com and siddharthmudaliar29@gmail.com

Abstract: Direct taxation plays a central role in shaping individual financial planning, influencing decisions related to income allocation, savings, consumption, investments, risk management, retirement planning, and long-term wealth accumulation. The Union Budget 2026–27 retained the prevailing tax slabs under both the old and new tax regimes, while introducing procedural simplifications under the Income Tax Act, 2025. This study examines the impact of direct tax reforms in FY 2026–27 on individual financial planning in India.

The research is entirely based on secondary data drawn from Union Budget 2026–27 documents, publications of the Central Board of Direct Taxes (CBDT), Ministry of Finance reports, RBI bulletins, SEBI publications, Economic Survey data, and recent academic literature. The study evaluates implications for disposable income, tax compliance behaviour, investment preferences, capital formation, and regime selection decisions.

The findings indicate that although Budget 2026–27 does not significantly alter tax rates or slabs, it meaningfully impacts compliance behaviour, portfolio structuring, and long-term planning decisions through procedural reforms and selective structural changes such as revisions in Securities Transaction Tax (STT), Sovereign Gold Bond (SGB) taxation, and buyback taxation rules. The overall effect is evolutionary rather than revolutionary, reinforcing stability, predictability, and compliance-driven financial planning.

Keywords: Direct tax reforms, Budget 2026–27, financial planning, tax compliance, new tax regime, disposable income, STT, SGB taxation

I. INTRODUCTION

Important Definitions

1. **Tax Year:** The financial period from 1 April 2026 to 31 March 2027 for which income is assessed.
2. **Act:** Refers to The Income-tax Act, 1961.
3. **Direct Tax:** A tax levied directly on the income or wealth of individuals and paid directly to the government, such as income tax.
4. **Individual Financial Planning:** A systematic process of managing income, expenses, savings, investments, taxation, insurance, and retirement goals to achieve financial security and long-term wealth creation.
5. **Disposable Income:** The portion of an individual's income remaining after payment of taxes, available for consumption and savings.
6. **Bracket Creep:** A situation in a progressive tax system where inflation or nominal income increases push taxpayers into higher tax brackets without a corresponding increase in real purchasing power.
7. **Tax Compliance Behaviour:** The degree to which taxpayers accurately report income, claim legitimate deductions, and file returns within prescribed timelines in accordance with tax laws.



Objectives of the Study

1. To analyze the impact of the direct tax provisions introduced in Budget 2026–27 on individual financial planning in India.
2. To assess whether the direct tax reforms in FY 2026–27 provide substantial incentives or structural benefits to individual taxpayers.
3. To evaluate how the choice between the old and new tax regimes influences savings, investment, and wealth-creation decisions.
4. To assess the effect of Budget 2026–27 on disposable income and tax compliance behaviour.
5. To examine the implications of STT revisions, SGB taxation changes, and buyback taxation reforms on investment strategy.

Justification of the Objectives

1. Relevance to Financial Stability

India's middle-income taxpayers rely heavily on predictable tax policies for retirement planning, SIP investments, housing loans, and insurance decisions. Any shift in tax treatment influences long-term capital allocation patterns.

2. Policy Effectiveness Assessment

Budget reforms must be evaluated not only in terms of rate changes but also in behavioural outcomes such as compliance, voluntary disclosures, and digital adoption.

3. Regime Selection Complexity

With the continuation of dual tax regimes, taxpayers face a structural choice that necessitates analytical comparison. This objective seeks to determine whether regime selection fosters rational tax planning or leads to confusion.

4. Macroeconomic Linkage

Individual tax behaviour affects national savings rate and capital formation. Understanding its microeconomic impact assists in evaluating macroeconomic outcomes.

5. Investment Behaviour Dynamics

Changes in SGB tax exemptions, STT rates, and buyback taxation alter post-tax returns, affecting risk appetite, speculative trading, and long-term wealth-building strategies.

II. REVIEW OF LITERATURE

The relationship between direct taxation and individual financial behaviour has been widely examined in recent academic and policy research. **Gupta and Sharma (2020)** found that direct taxes significantly influence household savings patterns and long-term investment allocation decisions, particularly in developing economies like India, where tax incentives play a major role in guiding retirement and insurance investments. Their study emphasized that changes in exemptions and deductions often lead to portfolio restructuring among middle-income households. Similarly, **Sinha (2021)** observed that simplified tax structures increase voluntary compliance and encourage systematic investment behaviour, particularly in tax-saving instruments such as provident funds and equity-linked savings schemes. The simplification of tax provisions reduces uncertainty and allows individuals to plan their finances more efficiently.

Further supporting this view, **Kumar (2022)** concluded that reduced compliance complexity enhances voluntary tax reporting and decreases tax evasion tendencies. The study highlighted that digital filing systems and clearer legal language improve taxpayer confidence and administrative efficiency. In contrast, **Verma and Rao (2023)** argued that while structural tax reforms may appear significant in policy discourse, their behavioural impact on individual taxpayers is often incremental rather than transformational. According to their findings, most taxpayers tend to maintain established savings and consumption patterns unless reforms substantially alter disposable income levels.

Institutional reports further reinforce these observations. The **Reserve Bank of India (RBI, 2023)** reported that household financial savings in India remain sensitive to tax incentives, particularly in instruments offering tax deductions or exemptions. The report indicated that fiscal incentives continue to shape the composition of household



financial assets. The **Economic Survey (2024)** emphasized that tax simplification and procedural reforms play a critical role in enhancing compliance rates and improving the overall tax-to-GDP ratio. It highlighted that predictability and clarity in tax policy are as important as rate reductions in fostering compliance.

Data from the **Central Board of Direct Taxes (CBDT, 2024)** showed a consistent rise in income tax return filings under the new tax regime, suggesting growing acceptance of simplified tax structures among individuals. This trend reflects a behavioural shift toward ease of compliance over maximization of deductions. Similarly, the **Securities and Exchange Board of India (SEBI, 2024)** noted increased retail participation in equity markets, partly attributed to favourable and transparent tax treatment of capital gains and buybacks, thereby influencing post-tax return expectations.

At the international level, the **Organisation for Economic Co-operation and Development (OECD, 2023)** stressed that procedural simplification tends to improve compliance more effectively than nominal rate cuts. The OECD's comparative study across countries demonstrated that taxpayers respond positively to transparent and stable tax systems. In line with this, the **World Bank (2024)** observed that tax predictability strengthens long-term investment behaviour and enhances investor confidence, particularly in emerging economies, where policy stability reduces perceived financial risk.

Overall, the literature suggests that while tax rate changes may influence disposable income directly, procedural reforms, simplification, and policy predictability have a sustained behavioural impact on individual financial planning. However, limited research specifically examines the direct tax reforms of FY 2026–27 under the Income Tax Act, 2025, thus establishing the need for the present study.

Research Gap

Limited academic research exists on the specific impact of FY 2026–27 reforms under the Income Tax Act, 2025, particularly in relation to STT revisions and SGB taxation changes. This study addresses this gap.

III. RESEARCH METHODOLOGY

This study adopts a descriptive and analytical research design to examine the impact of direct tax reforms introduced in Budget 2026–27 on individual financial planning in India. The research is entirely based on secondary data collected from authoritative and credible sources. These include Union Budget 2026–27 documents, annual reports and circulars issued by the Central Board of Direct Taxes (CBDT), publications of the Ministry of Finance, Reserve Bank of India (RBI) bulletins, Securities and Exchange Board of India (SEBI) statistical reports, and the Economic Survey 2024–25. In addition, peer-reviewed academic journals, research papers on taxation and personal finance, and reputed tax portals such as ClearTax and Taxmann have been referred to for interpretative insights and expert analysis of recent tax amendments. No primary data has been used in this study. The collected data has been examined using descriptive, comparative, and interpretative analytical techniques to evaluate the implications of the FY 2026–27 tax provisions on disposable income, investment decisions, compliance behaviour, and overall financial planning of individual taxpayers.

Limitations of the Study

While the study attempts to provide a comprehensive evaluation of the impact of direct tax reforms in FY 2026–27 on individual financial planning in India, it is subject to certain limitations. First, the research is based exclusively on secondary data, which may not fully capture real-time behavioural responses or nuanced decision-making patterns of taxpayers. Second, the analysis primarily focuses on short-term implications of the Budget provisions; long-term behavioural changes in savings, investment, and compliance patterns may evolve differently over time. Third, the study assumes that taxpayers possess adequate awareness and understanding of the tax reforms introduced under Budget 2026–27, which may not always hold true across diverse income groups and regions. Additionally, external macroeconomic factors such as inflation, interest rates, employment conditions, and overall economic stability may independently influence financial decisions, making it difficult to isolate the impact of tax reforms alone. Finally, the



absence of primary survey-based data limits the depth of behavioural assessment and restricts the study to interpretative conclusions drawn from existing reports and documented evidence

IV. DISCUSSION

The Budget 2026 retains the existing direct tax framework, with no changes in income tax slabs, rebates, or standard deductions. According to the Income Tax Department data for F.Y. 2025–26, over 90% of individual taxpayers fall under the income bracket up to ₹5 lakh, where the rebate and standard deduction provide significant relief. This highlights that the majority of taxpayers continue to benefit from a stable and predictable tax environment. As a result, individuals are likely to continue with established patterns of saving, investment, and expenditure. The preference for the new tax regime suggests that many taxpayers’ value simplicity and lower compliance burden, even if it means forgoing certain exemptions and deductions. From a financial planning perspective, the stable tax provisions reinforce predictability, which is critical for long-term investment decisions such as contributions to retirement funds, mutual funds, and tax-saving instruments under Section 80C. Moreover, the progressive nature of direct taxes ensures that higher-income individuals continue to bear a relatively higher tax burden, which can influence discretionary spending and strategic investment planning.

Old Tax Regime	
Total Income	Tax Rate
Upto 2,50,000	Nil
From 2,50,001 to 5,00,000	5%
From 5,00,001 to 10,00,000	20%
Above 10,00,000	30%
Rebate maximum up to 12,500	

New Tax Regime	
Total Income	Tax Rate
Upto 4,00,000	Nil
From 4,00,001 to 8,00,000	5%
From 8,00,001 to 12,00,000	10%
From 12,00,001 to 16,00,000	15%
From 16,00,001 to 20,00,000	20%
From 20,00,001 to 24,00,000	25%
Above 24,00,000	30%
Rebate maximum up to 60,000	

In essence, while the Budget 2026 does not introduce reforms that materially alter an individual’s tax structure, its direct tax provisions continue to shape financial planning behaviour by providing stability, maintaining equity, and reinforcing taxpayer preferences toward the simplified tax regime.

1. Impact on Take-Home Income:

Given the unchanged slabs and deductions, the take-home income of most of the taxpayers may remain largely consistent with previous years. But for individuals whose income has increased marginally due to inflation, annual increments, or additional earnings may cross taxable thresholds. Even a modest rise in income can move a taxpayer



from a non-taxable bracket to a taxable one, resulting in higher tax liability despite limited growth in real disposable income. This phenomenon, often referred to as “bracket creep,” highlights the subtle impact of inflation on tax burdens in a progressive system. For individuals, awareness of this effect is essential for adjusting savings and expenditure plans to maintain financial stability.

2. Impact on investment decisions, wealth creation & capital formation:

Direct taxes influence investment decisions by affecting post-tax returns, guiding choices between short- and long-term investments, and encouraging investments in government- backed or incentivized schemes, thereby shaping portfolio composition and risk preferences. However, Budget 2026 introduced specific updates that affect the attractiveness and tax efficiency of certain instruments. One of the most notable revisions relates to Sovereign Gold Bonds (SGBs): the long-standing capital gains tax exemption on redemption at maturity will now apply only to individuals who subscribed at the original issue and hold the bonds until maturity. Investors who acquire SGBs from the secondary market will no longer qualify for this exemption and will be subject to capital gains tax on redemption gains, reducing the tax advantage previously associated with secondary market purchases. This shift is expected to dampen speculative demand for SGBs and prompt investors to reassess gold allocations within their portfolios.

Another significant change relates to the tax treatment of share buybacks. Prior to Budget 2026, buyback proceeds for individual shareholders were taxed as dividends at their applicable slab rates, which could be high while the corresponding cost resulted in a capital loss. The revised framework treats buyback proceeds as capital gains, allowing cost of acquisition to be deducted and potentially reducing tax liability through favourable capital gains rates relative to slab taxation. This makes buybacks a more efficient exit option for equity investors and may encourage increased participation in equity markets for long-term capital appreciation.

Budget 2026 introduced a notable revision in Securities Transaction Tax (STT)— specifically on futures and options (F&O) trading—which directly affects market participants’ investment behaviour.

Instrument	Transaction type	Existing Rates	Revised Rates	Increase by
Options in securities	Sale of Option premium	0.100%	0.150%	50%
Options in securities	Sale of Option where Option is exercised	0.125%	0.150%	20%
Futures in securities	Sale of Futures	0.020%	0.050%	150%

These changes, effective from 1 April 2026, are aimed at curbing excessive speculative activity in the derivatives segment by increasing transaction costs for frequent traders and high-turnover strategies, such as intraday and algorithmic trading.

3. Effect of the choice between the New & Old Tax Regimes on Financial decisions:

The new tax regime (taxation under section 115BAC of the Act) simplified income taxation by offering lower rates but fewer exemptions, whereas the old regime retains deductions and exemptions, such as Section 80C and housing loan interest, albeit at higher rates. For FY 2026–27, the Budget retains the existing structure of both regimes, allowing taxpayers to make a deliberate choice based on their income profile, investment habits, and financial goals. Individuals with higher eligible deductions—such as those investing in retirement funds, insurance, or home loans—may find the old regime more advantageous, as it reduces taxable income substantially, thereby lowering the effective tax rate. Conversely, taxpayers who prioritize simplicity and predictability, or who have limited deductions, may prefer the new regime for its lower marginal rates and reduced compliance burden.

A. Scenario where New Tax Regime is beneficial – Suppose a salaried individual earns ₹12 lakh per year. Under the old regime, they can claim ₹1.5 lakh under Section 80C, ₹50,000 standard deduction, and ₹25,000 for insurance premiums under Section 80D, reducing taxable income to ₹10 lakh. Their effective tax liability may be around ₹1.25



lakh. Alternatively, under the new regime, without exemptions, taxable income is ₹12 lakh, but the rebate under section 87A allows an individual to enjoy 'Zero' tax, since the rebate is upto Rs. 60,000/-.

A. Scenario where Old Tax Regime is beneficial –

Particulars	Amount (in Rupees)
Annual Gross Salary	18,00,000
HRA Received	6,00,000
HRA Exemption (calculated)	3,00,000
Standard Deduction	50,000
Section 80C Investments	1,50,000
Section 80CCD(1B)	50,000
Section 80D	50,000
Interest on Housing Loan	2,00,000

Tax liability under old Regime:

Particulars	Amount (in Rs.)
Gross Salary	18,00,000
less: Deductions	8,00,000
Net Salary	10,00,000
Net Tax	1,17,000

Tax liability under New Regime:

Particulars	Amount (in Rs.)
Gross Salary	18,00,000
less: Deductions	75,000
Net Salary	17,25,000
Net Tax	1,50,800

The above analysis demonstrates that the old regime may be advantageous for individuals whose salary structures involve substantial exemptions & deductions, despite the lower tax rates offered under the new regime.

4. Effect of Budget 2026 on tax compliance behaviour of individuals:

- The Budget extended the deadline for filing revised tax returns from December 31 to March 31 of the following year. This gives individuals more time to correct errors or report previously omitted information, potentially enhancing accurate and complete timely reporting. It also extended the ITR filing deadline for non-audit businesses, professionals, partners of non-audit firms, and trusts from 31 July to 31 August, easing compliance pressure.
- A noteworthy policy is the Foreign Assets of Small Taxpayers Disclosure Scheme (FAST-DS), offering a one-time window to declare previously undisclosed foreign income or assets with immunity from prosecution upon payment of tax and fees. This creates a targeted incentive for taxpayers to come forward and regularise their positions without fear of severe sanctions.
- Budget 2026 introduced the Income Tax Act, 2025, replacing the six-decade-old 1961 Act from April 1, 2026. The new law simplifies language and forms, eases procedural compliance, and streamlines filing, reducing administrative and cognitive burdens for taxpayers.



- It allows eligible individuals to submit Form 15G/H once through a depository to cover all dividend income, reducing multiple filings and TDS deductions, thereby easing compliance and promoting timely voluntary reporting.
- It also proposed an automated, rule-based system for issuing Lower or Nil Deduction Certificates (LDCs) for TDS purposes, allowing eligible small taxpayers to apply online to a prescribed authority rather than through assessing officers, thereby reducing procedural burden, delays and compliance friction.
- Further, it removed the requirement for resident individuals and HUFs to obtain a TAN when deducting TDS on payments for immovable property purchased from non-residents, allowing tax to be deducted using PAN-based challans. This simplification reduces administrative burden and eases compliance for individual taxpayers.

Recommendation to Index Tax Slabs to Inflation

In view of the foregoing analysis, it is recommended that income tax slab thresholds be systematically indexed to inflation in order to preserve the real value of taxpayers' incomes over time. Although the existing framework provides stability and predictability, both of which are essential for effective long-term financial planning, persistent inflation gradually erodes purchasing power and may result in taxpayers' being shifted into higher tax brackets despite no substantive increase in real income. This phenomenon of "bracket creep" can disproportionately affect middle-income groups and incrementally elevate their effective tax burden without a commensurate improvement in economic well-being. Indexing tax slab thresholds to a transparent inflation measure such as the Consumer Price Index (CPI) would reduce bracket creep by aligning tax liability with real, rather than nominal, income growth. This reform would uphold the integrity of the progressive tax structure, strengthen horizontal and vertical equity, and enhance the credibility of the direct tax system. By safeguarding purchasing power within a stable fiscal framework, inflation indexation would also support informed saving, investment, and consumption decisions.

V. CONCLUSION

Budget 2026–27 reflects a policy approach centred on procedural simplification rather than structural tax rate reduction. By retaining existing slab rates under both the old and new regimes, the government has ensured stability and predictability in the tax framework, thereby supporting continuity in individual financial planning. The introduction of the Income Tax Act, 2025 marks a significant institutional reform, modernising tax administration through simplified language, digitised processes, and streamlined compliance mechanisms. This shift reduces administrative burden and strengthens voluntary tax compliance.

Although there are no major changes in tax slabs, selective reforms—such as the revision of Securities Transaction Tax (STT), changes in Sovereign Gold Bond (SGB) taxation, and the capital gains-based treatment of buybacks—subtly influence portfolio decisions. These measures are likely to discourage speculative trading and encourage more disciplined, long-term investment behaviour.

Overall, the reforms reinforce fiscal stability, improve compliance architecture, and promote rational financial planning. However, their immediate transformative impact on individual financial behaviour remains moderate. The long-term effectiveness of these reforms will depend on inflation adjustments, taxpayer awareness, and consistent regulatory implementation.

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