

How to Save Tax on Salary from ?7 Lakh to ?1 Crore: Old vs New Regime (Tax Year 2026-27)

Description

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Quick summary

- Under the new regime a salaried individual pays no tax on salary up to ?12,75,000: the ?75,000 standard deduction takes income to ?12,00,000, and the section 156 rebate of up to ?60,000 clears the tax.
- Above that, the old regime wins only if your total deductions (including the ?50,000 standard deduction) cross a break-even figure, about ?5.9 lakh at a ?15 lakh salary and about ?8.5 lakh from ?30 lakh upward.
- In the new regime the useful levers are the employer's NPS contribution (up to 14% of salary), tax-free perquisite limits and a correct salary structure.
- Surcharge starts above ?50 lakh of income and is capped at 25% in the new regime but goes to 37% above ?5 crore in the old regime.

A salary of ?7 lakh, ?12 lakh, ?20 lakh or ?50 lakh calls for different advice. Below ?12.75 lakh the question is whether any tax is payable at all. Above it, the question is whether your deductions are large enough to beat the new regime. This post gives the rules, the tax at each level and the break-even point, for tax year 2026-27 (income earned in FY 2026-27).

The figures are for a resident individual below 60 whose only income is salary, with 4% health and education cess, unless stated.

The two regimes in one table

Point	New regime (section 202, default)	Old regime

Slabs	Up to ?4,00,000 nil; ?4,00,001 to ?8,00,000 5%; ?8,00,001 to ?12,00,000 10%; ?12,00,001 to ?16,00,000 15%; ?16,00,001 to ?20,00,000 20%; ?20,00,001 to ?24,00,000 25%; above 30%	Up to ?2,50,000 nil; ?2,50,001 to ?5,00,000 5%; ?5,00,001 to ?10,00,000 20%; above ?10,00,000 30%
Standard deduction	?75,000	?50,000
Rebate (section 156)	Tax or ?60,000, whichever is less, if income is up to ?12,00,000 (marginal relief above)	Tax or ?12,500, whichever is less, if income is up to ?5,00,000
Chapter VIII deductions (section 123 and others)	Not allowed, except employer's NPS contribution (section 124(1) and (2)) and a few others	Allowed
HRA exemption, LTA, interest on a self-occupied home loan	Not allowed	Allowed
Gratuity, leave encashment and similar exemptions	Allowed	Allowed
Surcharge	10% above ?50 lakh, 15% above ?1 crore, 25% above ?2 crore	10%, 15%, 25% on the same slabs, and 37% above ?5 crore

Slabs and the surcharge are from the Finance Act, 2026; the standard deduction, rebate and what is barred in the new regime are from sections 19, 156 and 202 of the Income-tax Act, 2025.

Salary up to ?12.75 lakh: no tax in the new regime

A salary of ?12,75,000 less the ?75,000 standard deduction is ?12,00,000. The slab tax on that is ?60,000, and the section 156(2) rebate of ?60,000 cancels it. **No investment is needed to save tax on these salaries.**

Marginal relief covers the next slice. The tax on income above ?12,00,000 cannot exceed the excess over ?12,00,000. On a salary of ?12,85,000 the income is ?12,10,000; slab tax is ?61,500 but tax is limited to ?10,000, plus 4% cess, so **?10,400**.

The rebate applies against slab-rate tax only; it does not reduce tax on special-rate income such as capital gains.

What the tax is at each level

Tax with cess. "Old regime" columns assume total deductions as shown, including the ?50,000 standard deduction.

Salary	New regime	Old regime, deductions?2,00,000	Old regime, deductions?4,50,000	Total deductionsneeded for old regimeto equal new
?7,00,000	0	0	0	Not needed
?10,00,000	0	?75,400	?23,400	New regime tax is nil
?12,75,000	0	?1,40,400	?80,600	New regime tax is nil
?15,00,000	?97,500	?2,10,600	?1,32,600	About ?5.9 lakh
?20,00,000	?1,92,400	?3,66,600	?2,88,600	About ?7.6 lakh
?30,00,000	?4,75,800	?6,78,600	?6,00,600	About ?8.5 lakh
?50,00,000	?10,99,800	?13,02,600	?12,24,600	About ?8.5 lakh
?1,00,00,000	?29,25,780	?31,48,860	?30,63,060	About ?8.5 lakh

Reading the table: at ?20 lakh you need roughly ?7.6 lakh of total deductions and exemptions in the old regime before it beats the new regime. A typical set (standard deduction ?50,000, ?1,50,000 under section 123, ?50,000 own NPS, ?25,000 health insurance, some HRA and home loan interest) can reach it only if rent or loan interest is high. Above ?30 lakh the break-even settles at about ?8.5 lakh because both regimes reach the top 30% slab.

What works in the new regime

1. **Employer's NPS contribution.** The employer's contribution to the notified pension scheme is deductible up to 14% of salary (basic plus dearness allowance) in the new regime (section 124(1) and (2)). It also counts toward the ?7.5 lakh combined limit for employer contributions to PF, NPS and superannuation. This is the single most useful structuring lever, and it has to be set up with the employer before the contribution is made.
2. **Exempt items that are not barred.** Gratuity and leave encashment on retirement, and many perquisites within the Rule 15 limits, stay tax free in both regimes.
3. **Do not restructure pay into HRA or LTA for tax.** In the new regime the HRA exemption and similar allowance exemptions are not available, so these allowances are taxed like the rest of salary. Look at the employer-side components (NPS, tax-free perquisites) instead.
4. **Plan for the rebate edge.** Between ?12,75,000 and about ?13.45 lakh of salary, each extra ?1 of salary costs ?1 of tax at the margin because of the marginal relief. An NPS contribution that brings income back under ?12 lakh removes the tax entirely.

What works in the old regime

If you choose the old regime, build up these in this order:

- **Section 123** (earlier 80C), up to ?1,50,000 in total: employee PF, tuition fees for two children, home loan principal, five-year bank or post office deposits, life insurance premiums and others listed in Schedule XV.
- **HRA exemption** if you pay rent and receive HRA, or the rent deduction if you receive none.

- **Interest on a home loan** on a self-occupied house.
- **Own NPS contribution** up to ?50,000 (section 124(3)), above the section 123 limit.
- **Health insurance premium**, **education loan interest** and **donations** to eligible funds.

See our posts on these deductions for the limits. Do not invest only to save tax: a lock-in product bought for a deduction is only worth it if you need the product.

High salaries: ?50 lakh to ?1 crore

- Surcharge starts when income is above ?50 lakh, at 10% of the tax. Marginal relief means the tax and surcharge together cannot exceed the tax at ?50 lakh plus the income above it.
- At ?1 crore of salary the new regime has taxable income of ?99,25,000, so the 10% surcharge applies; from ?1 crore the rate rises to 15%.
- The old regime's top surcharge is 37% above ?5 crore, but for most salaried people the gap is the ?8.5 lakh break-even above, not the surcharge.
- Income other than salary (capital gains, interest, business) adds to total income and can push you across a surcharge line.

A quick way to decide

1. List your actual deductions: employee PF, section 123 investments, rent paid and HRA received, home loan interest, own NPS, health insurance.
2. Add ?50,000 standard deduction. If the total is below the break-even for your salary in the table, **choose the new regime**.
3. If above, compute both exactly. The break-even is a guide; the surcharge, other income and the age of the taxpayer change it.
4. Read the option rules in section 202 before you file, and tell your employer early which regime to use for TDS so that the tax deducted during the year is close to your final tax.

Frequently asked questions

How much salary is tax free in the new regime?

Up to ?12,75,000 for a salaried person, for tax year 2026-27. The ?75,000 standard deduction reduces it to ?12,00,000 of income, and section 156(2) gives a rebate of the tax or ?60,000, whichever is less.

What if my income is a little above ?12 lakh?

Marginal relief applies. The tax cannot exceed the amount by which income is above ?12,00,000. At an income of ?12,10,000 the tax is limited to ?10,000 plus cess.

Which regime is better for a ?20 lakh salary?

For most people the new regime, unless total deductions (standard deduction, section 123 investments, HRA, home loan interest, own NPS and others) are above about ?7.6 lakh. Compute both with your own figures.

Is the old regime ever better?

Yes, when deductions and exemptions are large, for example HRA with a high rent, home loan interest and the full section 123 limit together.

What still works in the new regime?

The ?75,000 standard deduction, the employer's contribution to NPS (up to 14% of salary under section 124), exemptions such as gratuity and leave encashment, and the perquisite limits.

When does surcharge apply?

When income is above ?50 lakh: 10% up to ?1 crore, 15% up to ?2 crore and 25% above that. In the old regime it is 37% above ?5 crore. Marginal relief applies at each threshold.

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 19, 123, 124, 156, 202; Schedule XV)
- Finance Act, 2026 (rates of income-tax and surcharge for tax year 2026-27)

Related reading

- Gratuity: Rules, Formula and Income Tax Exemption (Tax Year 2026-27)
- Section 80C of Income Tax Act: 80C Deduction List, Limit and Examples
- How to Save Tax Other Than 80C: Deductions and Exemptions for 2026-27

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Date
21/11/2026
Date Created
15/06/2026
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