



Framing Effects and Perceptions of Loss vs. Gain: Analysing Taxpayer Hesitation toward Tax Regime Transition in Delhi

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Abstract

Research on risky decision-making has proven time and time again that framing outcomes as wins or losses changes how people perceive them. This paper uses the prospect theory of Kahneman and Tversky to address a policy issue that is currently relevant in India: why are so many taxpayers in Delhi hesitant to switch from the old income-tax system, which had many deductions and exemptions, to the new system, which has lower slab rates but no deductions at all? A significant portion of Delhi taxpayers, especially those involved with home loans, HRA claims, or Section 80C investment habits, are hesitant to switch, even though the new regime would reduce their liability when compared rupee for rupee, even though the new regime has been the statutory default since Assessment Year 2024-25 and most filers have already migrated, according to national statistics. This study presents the argument that financial optimization fails to adequately explain taxpayer reluctance and instead suggests that it is better understood as a loss-averse response that is dependent on framing: taxpayers place a higher value on the tangible, certain loss of familiar deductions than on the theoretical, equivalent gain of a lower tax rate. Using a structured survey and a between-subjects framing experiment, this study evaluates the expressed desire to transfer regimes under different frames of presentation of the same numerical data. The participants in the study were salaried and self-employed taxpayers across Delhi. Age, income bracket, and previous investing behaviour serve as demographic moderators, and there is a discernible endowment impact associated with legacy deductions. The data also demonstrate a statistically significant framing effect. At the end of the paper, we suggest several ways that tax authorities and financial advisors can communicate in a way that is benefit-framed and loss-neutral. This will help to decrease choice friction without limiting taxpayer autonomy.

Keywords: prospect theory, framing effect, loss aversion, tax regime transition, behavioural economics, taxpayer decision-making, Delhi, income tax, status quo bias

1. Introduction

When governments make significant changes to their tax systems, ordinary people have a dilemma: stick with what they know or try something new, even if the new system seems better on paper. One such occasion is the shift of India's income tax system from a single, deduction-heavy structure to a dual-regime system, with the long-standing "old regime" and the simpler "new regime" established in the 2020-21 Budget. Salaried taxpayers earning up to around ₹12.75 lakh after applying the standard deduction and the expanded Section 87A rebate are practically tax-free under the new regime, which offers lower marginal rates across broader slabs and has been in place since the 2025-26 Budget. In return, it eliminates a number of tax breaks that have helped Indians manage their money for many years, including the House Rent Allowance (HRA), the Leave Travel Allowance (LTA), the Section 80C investment basket, and the Section 80D health insurance payments.

The administration has been quite clear about their preference. A taxpayer is required to actively opt-in using Form 10-IEA to continue in the old regime; failing to do so will result in automatic taxation under the new regulations beginning with Assessment Year 2024-25. Nearly three quarters of individual filers nationwide have already transitioned to the new system, according to official declarations made around the 2025 Budget. The finance secretary had publicly stated his anticipation that "virtually everyone" would eventually make the change. But a large portion of the population hasn't, and evidence from the advisory sector and anecdotal accounts indicates that this reluctance is most prevalent among taxpayers who have invested in life insurance, Public Provident Funds, and home loans, as well as salaried workers whose pay is structured around HRAs. Examining this reluctance in Delhi is a very illuminating experience. Many filers in Delhi are

near the income bands where the two regimes' results really compete due to the city's high average incomes, its large concentration of salaried, white-collar taxpayers, and its developed market for tax-saving financial products. The loss of the home-loan interest deduction under Section 24(b) is financially significant for a large percentage of the Delhi taxpayer population, who are homeowners with mortgage commitments and live in urban areas. With these characteristics, Delhi serves as a good case study for investigating the emotional and financial reactions of taxpayers to a legally voluntary but institutionally prodded regime transition.

1.1 Problem Statement

A rational taxpayer, according to standard economic theory, would know the results of both regimes and would pick the one that results in a smaller tax bill. Experts in tax planning, chartered accounting, and behavioural finance have found that taxpayers consistently ignore calculations showing they would save money under the new regime. This paper delves into the empirical conundrum of the discrepancy between the financially best decision and the chosen behaviour. In this test, we hypothesize that taxpayers perceive a lower tax rate as an abstract, less emotionally salient benefit, even though the two are numerically equal or when the gain exceeds the loss. This is in contrast to their perception of the loss of familiar deductions, which they perceive as a certain and vivid loss. When compared to models that rely only on financial literacy or transaction cost, prospect theory's more comprehensive explanation for regime-switching hesitation—this asymmetry—is the defining feature of loss aversion.

1.2 Research Objectives

1. To determine if Delhi taxpayers' desire to switch to the new income-tax regime differs when the same financial outcome is offered in loss- or gain-framed language.
2. To quantify Delhi taxpayers' loss aversion and status-quo bias for legacy tax-saving mechanisms (HRA, Section 80C, Section 80D, home-loan interest).
3. Determine demographic and financial moderators—age, income slab, occupation type, homeownership, and years of prior deduction use—that support or weaken framing.

1.3 Significance of the Study

The Central Board of Direct Taxes (CBDT) and the Income Tax Department mainly communicate regime choice through neutral, tabular comparisons that assume taxpayers process information according to expected-utility theory. Therefore, it is important for policymakers to understand the psychological architecture of taxpayer hesitation. If framing effects are substantial, then the government can employ communication design, not just rate structure, to cut down on taxpayers' filing mistakes, get them to comply with the regime that helps them out in the long run, and alleviate the compliance burden that comes from people just not moving forward. The results provide a foundation for financial advisers and tax preparation platforms to rethink calculators and advising scripts that clients interact with. The study adds to the existing body of knowledge in behavioural economics by applying the concepts of framing and loss aversion from Western tax compliance contexts to a unique, high-stakes, real-world policy change in urban India. This setting has garnered very little empirical research up until now.

2. Literature Review

2.1 Prospect Theory and the Psychology of Framing

"Why Do People Pay Taxes? Prospect Theory versus Expected Utility Theory" was an effort by *Dhami and al-Nowaihi (2007)* to address this very subject. The researchers set out to determine which of two competing theories—Expected Utility Theory and Prospect Theory—better explains taxpayers' decisions about whether or not to follow the law. Incorporating reference dependence and probability weighting, two behavioural components of cumulative Prospect Theory, into a theoretical model of tax evasion was the research technique. Unlike conventional Expected Utility Theory, Prospect Theory was able to explain important aspects of taxpayer behaviour, including the relatively high rate of tax compliance and the well-known Yitzhaki paradox concerning the relationship between tax rates and evasion. Psychological assessments of benefits, losses, and probabilities, rather than a rigidly rational expected-utility

paradigm, are better able to explain many taxation decisions, according to the study. This study supports the premise that considering psychological framing could help us understand taxpayers' choices better.

"Moral Hazard, Income Taxation and Prospect Theory," a 2008 research by Kanbur, Pirttilä, and Tuomala, investigated this point. Using Prospect Theory as a replacement for the more conventional Expected Utility Theory and presuming that individuals behave in line with this theory, we aimed to determine how the optimal income tax theory changes. The study used a theoretical and analytical approach to develop an ideal income-taxation model that accounts for reference-dependent preferences, uncertainty, and loss-sensitive behaviour. For taxpayers operating in the domain of perceived losses, in particular, the data show that including Prospect Theory changed many conventional optimal taxation results. The reference consumption level becomes crucial in order to understand people's reactions to taxes and uncertainty. Conventional utility maximization may not always give a good explanation for income-tax decisions, since taxpayers may react differently to perceived gains and losses and evaluate results relative to reference points. Future studies exploring how people conceptualize possible tax consequences can build on this research's strong theoretical foundation.

In their 2016 study titled "Revisiting the Tax Compliance Problem Using Prospect Theory," Rao and Tandon examined this very issue. The goal was to use Prospect Theory to understand why people pay taxes or not and to find out what income brackets people would want to file their taxes at. The research technique included creating a theoretical behavioural model that simulated taxpayers' choices about income-declaration and tax-filing based on policy variables like audit probabilities, penalties, and tax rates. We ran simulations to see how taxpayers' choices would shift under different policy scenarios. Tax rates, penalties, and audit probability influenced taxpayers' choices to file, and the results proved that there are income levels where taxpayers' preferences vary. Because taxpayers consider possible outcomes in light of their perceived benefits and costs, rather than depending just on traditional expected-utility calculations, Prospect Theory offers a helpful behavioural explanation of taxing decisions. For the fiscal years 2023–24, Rao and Aanand (2024) compared the Old and New Tax Regimes' levels of income indifference. Finding out when one tax system becomes financially preferable to the other and what deductions and exemptions an assessee grows indifferent to at various income levels was the aim and objective of the study. The study's approach included comparing the two systems' tax liabilities at various income and deduction levels. The findings showed that the two regimes' relative attractiveness varied with taxpayer income and available deductions and exemptions. Since the Old or New Regime's financial attractiveness depends on the taxpayer's current deductions and income situation, the conclusion suggested that regime choice is reference-dependent. The study did not directly test Prospect Theory, but its results are applicable to framing because different taxpayers can see the same tax option as either beneficial or detrimental depending on their reference point. Dharmi,

Hajimoladarvish, and Mamidi's (2025) study "Loss Aversion and Tax Evasion: Theory and Evidence" examined this topic. Finding out whether taxpayers' income sources affected the relationship between loss aversion and tax avoidance behaviour was the driving force for this research. A mix of theoretical modeling and practical investigation with Indian university students made up the research technique. In a controlled environment, researchers looked at how people responded to risk, whether they decided to avoid paying taxes, and how much money they made from wages vs. gifts. The results demonstrated a direct correlation between individual-specific loss aversion and tax-evasion behaviour, in addition to showing that risk preferences and income source affected this link. To make sense of tax-related choices, one must be familiar with reference-dependent preferences, mental accounting, and loss aversion. This research is particularly pertinent to the present inquiry since the experimental findings from India support the behavioural foundations of Prospect Theory in taxes.

2.2 Framing and Loss Aversion in Tax Compliance Research

"A Comparative Study of the Old Income Tax and the New Tax Regime on Indian Individual Tax Payers" by *Rabidas (2022)* analyzed the changes made to the tax system after the Union Budget 2020–21 and how they affected individuals paying taxes in India. Using tax slabs, rates, deductions, exemptions, and other applicable benefits, the study compared and contrasted the two regimes. According to the results, the Old Tax Regime gave a lot of tax breaks through deductions and allowances even though the rates were higher, while the New Tax Regime had lower rates but fewer deductions and exemptions. Due to the fact that each taxpayer's income, deductions, exemptions, and tax-saving situation was unique, the analysis found that neither system was necessarily advantageous for all taxpayers. Therefore, before making a final decision, taxpayers should evaluate their tax obligations and financial situation under both regimes.

Researchers *Rekhi and Saxena (2023)* looked at how taxpayers felt about the proposed changes to the income tax system. Focusing on taxpayers' views on tax evasion, complexity, awareness, and compliance, this study set out to analyse the New Income Tax system. The research technique made use of secondary sources as well as primary sources, with the former being a questionnaire survey that assessed taxpayers' opinions through descriptive analysis. The findings demonstrated that taxpayer knowledge and complexity perceptions are critical to comprehending reactions to the New Tax Regime. Individuals making modest efforts to reduce their tax liability may benefit from the New Regime, even if the old system kept offering incentives for investments and deductions. Both the statutory tax rates and the taxpayers' comprehension and impression of the structure are determinants of the taxpayers' reactions to tax reforms, according to the conclusion. Accordingly, the study lends credence to the behavioural notion that taxpayers' perceptions and mental models of potential tax arrangements impact their choices.

For the fiscal years 2023 and 2024, *Sah* performed "A Comparative Study between Old Tax Regime and New Tax Regime." The goal was to look at the New Tax Regime's adjustments and figure out which tax system would be better for taxpayers in particular situations. The study relied solely on secondary data culled from a variety of sources, including a comparative analysis of taxation provisions and scholarly publications, books, newspapers, journals, and magazines. The findings demonstrated that taxpayers' income and utilization of deductions and exemptions dictated the relative advantage accessible under the two regimes. Taxpayers should weigh the pros and cons of each regime thoroughly before making a final decision, the report concluded. The results have behavioural implications for loss aversion due to the fact that taxpayers used to deductions under the Old Regime may see giving them up under the New Regime as a financial loss, even if reduced rates offer compensatory advantages.

How Ahmedabad City taxpayers felt about the Old and New Tax Regimes was the subject of research by *Bharad and Sharma (2024)*. We set out to learn how different taxation options influenced people's propensity to save and invest, as well as their impressions of the pros and cons of the two systems. A structured survey of 118 individual taxpayers and an analysis of the regimes' legal features made up the research methodology. The findings highlighted the necessity for better comprehension of the two taxation systems and revealed disparities in taxpayer knowledge and preference. Educating taxpayers and streamlining tax regulations were the main points of the conclusion. The study is helpful in terms of loss aversion and framing since taxpayers may view deductions, exemptions, reduced rates, and simplicity as advantages gained or forfeited, which impacts their preferences for regimes.

2.3 Research Gap: Prospect-theory research on taxation has focused on compliance and evasion decisions—whether to declare income honestly—rather than regime-selection decisions, where the 'loss' is the purposeful sacrifice of a known entitlement. Most Indian criticism on the old-versus-new regime decision is normative and calculative (which regime minimizes tax for a given income), not behavioural (why taxpayers chose the alternative that does not minimize tax). Few studies have isolated the framing effect in urban Indian taxpayers undergoing a live, government-mandated regime transition, despite its widespread validation

in Western tax-compliance settings. This study tackles that gap by addressing the old-versus-new regime decision as a framing-sensitive choice architecture issue and testing it on Delhi taxpayers.

3. Theoretical Framework

3.1 Applying the Prospect-Theory Value Function to Regime Choice

For $x \geq 0$ and $v(x) = x^\alpha$ for $x \geq 0$, and for $x < 0$, $v(x) = -\lambda (-x)^\beta$, where $\lambda > 1$ represents the loss-aversion coefficient, this study models the taxpayer's regime decision using the standard prospect-theory value function, $v(x)$. The function is convex for gains and steeper in the loss domain than the gain domain. For taxpayers, the status quo, or the previous regime, under which they have filed for many years, serves as a point of reference. There are two similar ways to look at a regime change: from the perspective of the loser (who gives up HRA, Section 80C, and home-loan-interest deductions) to the perspective of the winner (who gets a lower effective tax rate and more money in their pockets). A switch's disutility in a loss-framed description should be greater than its utility in a gain-framed description, even when the two descriptions are numerically reconcilable, due to the steeper $v(x)$ for losses than gains. Consequently, switching intentions are measurably lower when using loss framing.

3.2 Conceptual Model and Hypotheses: A number of demographic and financial variables, including framing condition (loss, gain, or neutral), stated readiness to transition to the new regime, homeownership status, occupation, and years of deduction use, serve as moderators in the conceptual model. Straight out of the theoretical framework come three hypotheses:

H1: Taxpayers who hear about the regime change from a negative perspective will be far less likely to want to make the change than those who hear about the same change from a positive perspective.

H2: The taxpayer's history of using deduction-generating tools (such as a home loan, an HRA claim, or investments made under Section 80C) will have a positive correlation with the magnitude of the framing impact, in line with the endowment effect associated with those tools.

H3: When compared to younger taxpayers and first-time filers, those with longer histories of old-regime filing and those who are older will exhibit more loss aversion and a larger framing impact.

4. Research Methodology

Research Design: An experimental design based on between-subjects framing within a structured survey forms the backbone of this mixed-method, mostly quantitative investigation. The participants were given one of three options that offered a similar but different comparison of their tax liability under the old and new regimes. One option was a loss frame, which stated, "If you switch, you will lose your HRA and Section 80C deductions worth ₹X." The other was a gain frame, which stated, "If you switch, you will gain ₹X in extra take-home income." The control condition was a neutral, side-by-side numerical comparison. Subsequent to exposure, participants were asked to score their openness to changing regimes using a seven-point Likert scale. They were also asked to complete follow-up questions that assessed their perceptions of loss, gain, regret anticipation, and trust in the calculation.

Population and Sample: Individuals residing in the National Capital Territory of Delhi who had previously submitted an income tax return under the previous system, including salaried workers, self-employed experts, and small business owners, were the intended recipients of the information. With a mix of referrals from chartered accountants, distribution through corporate HR partners in the workplace, and online panels of verified PAN-linked filers, we were able to draw a stratified sample of 386 respondents from seven districts in Delhi (New Delhi, South Delhi, Southwest Delhi, West Delhi, North Delhi, East Delhi, and Northwest Delhi) to ensure geographic and income-band representation. By using quota sampling, we were able to obtain data from all three income brackets (₹5-10 lakh, ₹10-20 lakh, and above ₹20 lakh) as well as all occupational groups, whether they were salaried or self-employed.

Instrument Design: Four pieces comprised the survey instrument. The first section asked about age, occupation, income band, homeownership, and old-regime filing years. Section 2

was the randomized framing vignette. A post-exposure attitudinal battery examined switching intention, perceived loss, perceived gain, expected regret, and choice confidence on seven-point Likert scales in section three. Section four was open-ended and required responders to justify their choice. They used it for qualitative theme analysis. In order to improve clarity, 24 respondents piloted the instrument before deployment. Multi-item attitude measures have Cronbach's alpha values over 0.80, indicating reasonable internal reliability.

Data Collection Procedure: We quantitatively examined the three framing circumstances' mean switching-intention scores using one-way analysis of variance. We next used Tukey post hoc testing to find significant differences between conditions. Our multiple linear regression study examined how age, income band, homeownership, and prior deduction utilization modified the framing effect. Use chi-square testing to analyse the framing condition and yes/no answer of filing Form 10-IEA to extend the old regime. Before resolving conflicts, two coders inductively categorized open-ended replies with 0.84 (Cohen's kappa) agreement.

Data Analysis Techniques: We compared the three framing situations' mean switching-intention scores using one-way analysis of variance for quantitative analysis. We then found significant differences between each set of conditions using Tukey post hoc tests. We used a multiple linear regression analysis to assess how age, income band, homeownership, and years of prior deduction utilization moderated the framing effect. We examined the framing condition and the yes/no answer of intending to file Form 10-IEA to extend the old regime using chi-square testing. Inductively categorizing open-ended responses, two coders attained an inter-rater agreement of 0.84 (Cohen's kappa) before resolving disagreements.

5. Data Analysis and Results

5.1 Demographic Profile of Respondents

Out of 386 people who filled out the survey, 61% were working for someone else for pay, 27% were professionals working for themselves, and 12% were owners of their own small businesses. With 34% being in the 25-34 age bracket, 38% in the 35-44 bracket, and 28% in the 45+ age bracket, the sample was heavily biased toward taxpayers in the middle of their careers. Out of all the filers, 58% had an active mortgage, 71% claimed HRA in their last old-regime tax return, and 82% had at least one investment that qualified under Section 80C (such as donations to the Employees' Provident Fund, the Public Provident Fund, life insurance, or the Equity-Linked Savings Scheme). Before the poll, the median respondent had used the old regime for six years to file.

Table 1. Demographic and financial profile of survey respondents (N = 386)

Characteristic	Category	Share of sample (%)
Occupation	Salaried employee	61
	Self-employed professional	27
	Small-business proprietor	12
Age band	25–34 years	34
	35–44 years	38
	45 years and above	28
Income band	₹5–10 lakh	29
	₹10–20 lakh	48
	Above ₹20 lakh	23
Financial profile	Active home loan	58
	Claims HRA	71
	Holds Section 80C investment	82

5.2 Switching Intention across Framing Conditions

On a seven-point scale where 1 = absolutely stay in old regime and 7 = definitely switch to new regime, the mean expressed willingness to switch to the new regime varied sharply among the three experimental situations. Average switching intentions were 3.42 (SD=1.31) in the loss-framed condition, 4.35 (SD=1.28) in the neutral condition, and 5.16 (SD=1.19) in the gain-framed condition, according to the respondents. Based on the results of a one-way ANOVA, which showed that these changes were statistically significant ($F(2, 383) = 48.7, p < 0.001$), the effect size (η^2) was 0.203, suggesting that the framing condition accounted for somewhat more than 20% of the variation in switching intention. Tukey post-hoc comparisons demonstrated that there were three significant pairwise differences at $p < 0.01$: loss vs. neutral, neutral versus gain, and loss versus gain. The largest and most substantial contrast was the loss-versus-gain gap, which measured 1.74 scale points.

Table 2. Mean switching intention and stay-rate by experimental framing condition

Framing condition	n	Mean switching intention (1–7)	SD	% intending to remain in old regime
Loss frame	129	3.42	1.31	57.4
Neutral / numerical frame	128	4.35	1.28	38.3
Gain frame	129	5.16	1.19	21.7

Given that just 21.7% of respondents using the gain-framed method got the same underlying calculation as the loss-framed method, the disparity between the two groups is statistically significant (57.4% of loss-framed respondents said they would file Form 10-IEA to stay in the old regime). The results of a chi-square test showing the relationship between the framing condition and the stated intention to file Form 10-IEA were statistically significant ($\chi^2(2, N = 386) = 41.6, p < 0.001$), supporting the hypothesis that taxpayers who were shown information about the same financial outcome in a loss-framed manner were much more likely to stay in the old regime than those who were shown information about the same outcome in a gain-framed manner.

5.3 Loss Aversion, the Endowment Effect, and Prior Deduction Use

A multiple regression model was employed to examine whether home-loan status, HRA claims, Section 80C investments and prior deduction intensity significantly predicted switching intention and moderated the framing effect. We also included an index of prior deduction intensity. According to the significant interaction term ($\beta = -0.29, p < 0.01$), the detrimental impact of loss framing on switching intention became more pronounced as the strength of respondents' past deductions increased. When comparing respondents with high deduction intensity (i.e., home loan, HRA, and two or more 80C instruments) to those with low deduction intensity (i.e., no home loan, no HRA claim, and one or no 80C instrument), the loss-versus-gain gap was 2.21 scale points. Taxpayers with the largest accumulations of deductions from the old system feel the threat of surrender the most acutely, regardless of the real amount in rupees at stake, and this trend is in line with the endowment effect. Ratings of perceived loss supported this trend. Respondents in the loss-frame condition who had high deduction intensity rated their perceived loss on a separate seven-point item at 5.87, which is significantly higher than what they actually lost compared to what they gained. This is because, after applying the standard deduction and revised slabs, the new regime actually reduced or equalized their total tax liability in 68% of these cases. Basically, most people who thought the transition would be a big loss really ended up better off after doing it, proving that people are more hesitant because of how they perceive the transfer than because of any financial considerations.

5.4 Demographic Moderators

Respondents aged 45 and beyond demonstrated a loss-versus-gain disparity of 2.15 points, in line with H3, while respondents aged 25-34 exhibited a gap of 1.32 points (interaction $\beta = 0.24, p < 0.01$). The pattern of years of old-regime filing followed a similar trend, where the size of the framing gap increased by 0.07 points for every extra year of filing history ($p < 0.05$). This

is in line with the idea that the status quo bias becomes stronger as a habit becomes more ingrained. In a non-linear fashion, the relationship between income band and framing was as follows:

Respondents in the ₹10-20 lakh annual income bracket were most affected by the framing effect, suggesting that taxpayers in the medium income bracket were relatively more attuned to showing tax-regime results as profits or losses. The framing effect was less pronounced in the groups with lower and higher incomes, nevertheless. Salary earners exhibited wider framing gaps than self-employed people; this is likely due to the fact that payroll systems handle HRA and standard deduction claims for salaried workers automatically, making the benefits of the previous regime more apparent and routine on a monthly basis.

5.5 Qualitative Themes:

Four common reasons emerged from the thematic analysis of the free-form replies given by those who opted to stay under the old regime even though the new rule was more advantageous. Most commonly, a mental accounting method was used by 44% of those who opted to stay in the old regime. This method involves referring to deductions as "money I have already committed" or "my own savings, not the government's money to take away," which views continued eligibility for deductions as an entitlement rather than a future policy choice. In keeping with the asymmetrical weighting predicted by the prospect-theory framework, the second theme—reflecting anticipated regret—was present in 31% of responses. Respondents were worried that switching and subsequently discovering the new regime to be disadvantageous would feel worse than never switching at all. Thirdly, 22% of people who took the survey expressed skepticism about the current regime's longevity, citing the fact that tax regulations "keep changing" and wishing they could return to an earlier system with more predictable regulations. An additional disincentive independent of the pure loss-aversion mechanism was the administrative work of recalculating wage structuring and investment plans, according to a fourth, lesser theme that was mentioned in 14% of replies.

6. Discussion

The findings offer compelling evidence in favour of a framing-based theory explaining taxpayer reluctance to participate in regime transitions in Delhi. After accounting for respondents' actual calculated tax outcomes, the loss-versus-gain gap remained, with a magnitude of about 1.7 scale points on switching intention and a 36 percentage point difference in stated intent to remain in the old regime. This is large compared to effect sizes reported in the broader framing-effects literature. This indicates that the communication design, and not just the underlying mathematics, significantly influences the regime decision that a significant portion of the taxpayers in Delhi select in the end. This conclusion is especially noteworthy because regime choice has the greatest absolute rupee stakes for high-deduction-intensity taxpayers, who also happen to display the highest framing differences. Consistent with the endowment-effect literature on housing-related tax benefits more generally, it appears that homeowners with active mortgages regard Section 24(b) interest deduction as an almost inviolable right. The most policy-relevant finding of the paper is that most people who reported high levels of perceived loss would have benefited from switching, according to strict math. This suggests that current default communication, which focuses more on the negative aspects than the positive ones, could be leading some taxpayers in Delhi to make financially difficult decisions. The results of the age and tenure moderators are in line with the status-quo bias argument more generally: people perceive the loss of a long-standing behavioural pattern more acutely when it is interrupted, regardless of how good the routine is in the long run. According to the non-linear income effect, which is most pronounced in the ₹10-20 lakh band, framing effects are most influential in truly close-call decisions. In these cases, there is no clear dominant option to base judgment on, so presentation has a greater chance of determining the outcome. Rather than distributing outreach and clarifying communication resources evenly across the taxpayer population, they would be more effectively used if directed to this middle-income band. This finding has clear practical implications.

7. Policy Implications and Recommendations

1. The Income Tax Portal's calculator and CBDT taxpayer communication may use a redesign. Instead of showing an itemized list of forfeited deductions, they should display the net take-home gain amount. The entire list of deductions would still be disclosed for transparency's sake.
2. To address the current imbalance in emphasis on the loss side of the comparison, it would be beneficial to provide a standardized, gain-framed "switch summary" — a single statement like "Switching saves you ₹ X this year" — that would be prominently displayed before any list of deductions that would no longer be relevant.
3. Reach out to individuals in the income bracket of ₹10–20 lakh and emphasize simplified explanations to homeowners and salaried employees who claim HRA. This is because these groups exhibit the most significant framing effects and the highest percentage of instances where the loss-framed default results in a financially poor decision.
4. In addition to the usual payroll deduction workflow, encourage employer payroll and HR systems to provide a yearly, individually determined, gain-framed regime comparison. Currently, these systems reinforce old-regime behaviours through investment-proof processing and automated HRA.
5. Help level the playing field by teaching tax preparation platforms and chartered accountants to express the benefits of both regimes to clients in a way that is both balanced and gain-oriented.

8. Limitations of the Study

These conclusions are qualified by a number of limitations. The first issue is that this survey did not capture all of the factors that affect Form 10-IEA filing, such as employer processes and advisor input. As a result, there may be some discrepancy between stated intentions and actual filing behaviour, even though stated intentions are a standard and validated proxy in framing research. Secondly, although the sample was stratified by districts, occupations, and income bands, it was mainly drawn from chartered-accountant referrals and workplace channels. This means that the estimates may not fully reflect the true effect size in the general taxpayer population of Delhi, who may have lower financial literacy or no access to professional advice. Thirdly, the study only records a snapshot in time in a dynamic policy landscape; as future budgets change the parameters of the new regime and the relative attractiveness of the two regimes, the size (but likely not the direction) of the framing effect may change. Furthermore, qualitative coding still involves interpretation; different coding techniques may reveal somewhat different theme emphasizes, even though it achieves high inter-rated reliability.

9. Directions for Future Research

The results from Delhi could be compared to those from other metropolitan and non-metropolitan taxpayer populations in India to see how far the effect sizes are generalizable. Future work could also extend this design longitudinally to track if respondents stated intentions predict their actual Form 10-IEA filings in the subsequent assessment year. To determine if credibility of the source mitigates the framing effect apart from the content, experimental designs should alter both the gain/loss frame and the messenger (e.g., government portal, employer, independent advisor, and peer testimonial). Lastly, a specialized study disentangling the regime decision of taxpayers with mortgages vs. those without would enhance the policy targeting suggested in Section 7, considering the constant finding that home-loan interest deduction is an especially strong anchor for status-quo tendency.

10. Conclusion

This study aimed to investigate why some taxpayers in Delhi are hesitant to switch to the new income-tax system, despite the fact that many of them would benefit financially from doing so. Using Kahneman and Tversky's prospect theory as a foundation, the study tested the hypothesis that taxpayers' stated willingness to switch regimes is significantly (and practically

consequentially) affected by how the decision is framed, whether it is as a loss of familiar deductions or a gain in take-home income. This effect stands independent of the taxpayers' actual calculated tax outcome. Homeowners, long-term filers, and salaried employees in the ₹10–20 lakh income bracket, who have the largest financial stakes in the decision, are the ones who will be most affected by the change. These results suggest that the information environment in India is often used to frame the option in terms of loss, which could be causing taxpayers who stand to gain the most to be less likely to migrate, even albeit the new regime is structurally favourable. To assist taxpayers in Delhi in making decisions that are more in line with their real financial interests, we can reframe official and advisory communications around net gains instead of itemized losses. This approach does not alter the substantive rules of either regime and does not limit taxpayer freedom of choice.

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