



Impact of Income Tax Laws on Compensation Structuring in India: A Corporate Strategic Analysis

¹Vaishnavi Kadam

²Veena Rokade

¹Student, Rajeev Gandhi College of Management Studies, Ghansoli

²Student, Rajeev Gandhi College of Management Studies, Ghansoli

Abstract

This research paper critically examines the impact of income tax laws on compensation structuring in India during the fiscal years 2024 to 2026. It explores how recent changes in income tax slabs, deductions, and surcharges influence corporate decisions in designing employee compensation packages. The study particularly focuses on the strategic adjustments companies make to balance tax efficiency for both the organization and its employees while complying with evolving tax regulations.

Income tax laws in India have undergone significant reforms recently, such as the introduction of relaxed tax slabs under the new tax regime and changes in surcharge rates for high-income earners. These reforms affect how companies structure salaries, bonuses, and benefits like retirement contributions and tax-free allowances. Corporates strategically leverage these aspects to optimize tax liabilities, enhance employee satisfaction, and attract skilled talent through competitive compensation plans.

The interplay between income tax laws and compensation structuring also influences workforce management and financial planning within corporations. Organizations adjust salary components—such as basic pay, allowances, and perks—to maximize tax exemptions and deductions under current regulations. This complex balance requires ongoing analysis to align compensation policies with legal compliance and fiscal efficiency, while supporting overall business goals and employee welfare.

The paper concludes by offering actionable recommendations for corporate strategists. It suggests that companies should continuously monitor tax law changes to adapt compensation structures proactively. Emphasis is placed on adopting flexible salary models, increasing awareness of tax-saving provisions among employees, and integrating tax planning into broader human resource strategies. These recommendations aim to enhance corporate competitiveness and ensure sustainable financial management in a dynamic tax environment.

Keyword: Income tax, law, corporate, organization, employees, salary, impact, etc.

Introduction

The impact of income tax laws on compensation structuring is a crucial aspect for corporates in India, especially in light of recent reforms and policy changes for fiscal years 2024 to 2026. The Indian government has introduced significant amendments to tax slabs, rebate provisions, and deduction limits in an effort to simplify the system and enhance taxpayer benefits. These changes directly affect how organizations structure salaries, incentives, and benefits for their employees,



making compensation planning an increasingly strategic task. Corporates must now carefully weigh tax efficiency and compliance while balancing employee expectations, fiscal constraints, and regulatory requirements. Moreover, the introduction of a new, leaner income tax law from 2026 aims to streamline compliance and eliminate outdated provisions, further impacting compensation strategies. This research analyses how businesses respond to evolving tax regulations and outlines the strategic approaches used to optimize compensation structures within the dynamic legal landscape of India.

Objective of Study

- 1. Analyse Recent Income Tax Reforms**
To examine the major changes introduced in income tax laws from FY 2024 to 2026, including new tax slabs, rebate provisions, and deduction limits. This objective aims to understand the legal framework shaping compensation strategies.
- 2. Evaluate Impact on Compensation Structuring**
To assess how these tax reforms influence the design and structuring of employee compensation packages in Indian corporates. Focus will be on salary components, benefits, and incentive schemes affected by tax policies.
- 3. Explore Corporate Strategic Responses**
To investigate the strategic approaches adopted by companies to optimize compensation within the tax rules, balancing tax efficiency, regulatory compliance, and employee satisfaction.
- 4. Assess Employee Financial Implications**
To study the effects of tax-driven compensation changes on employees' take-home pay, savings, and overall financial well-being, highlighting the interaction between tax laws and personal finance.
- 5. Provide Practical Recommendations**
To offer actionable guidance for corporates on adapting compensation policies proactively in response to ongoing and upcoming tax reforms, ensuring sustainable, tax-efficient employee remuneration.

Literature Review

This study aims to investigate the impact of recent income tax law reforms on compensation structuring in India for FY 2024–2026, focusing on how businesses adapt salary models to optimize tax efficiency. The research highlights that the amendment of tax slabs and deductions influences corporate payroll design, encouraging firms to reevaluate compensation frameworks (Smith, 2023). These findings align with the project's objective to analyse strategic corporate responses to evolving tax policies and their effects on employee remuneration.

The purpose of another important work was to understand the strategic responses of Indian corporates to the introduction of a more granular tax slab structure and increased exemption limits. It found that companies are increasingly restructuring salary components like allowances and bonuses to leverage tax benefits (Kumar and Rao, 2024). This insight directly supports the



project's goal of assessing how strategic compensation structuring can align with tax law changes to benefit both firms and employees, reinforcing the role of tax planning in human resources.

Further research looked into the dual impact of tax reforms on corporate compliance and financial planning. It emphasized the complexity introduced by new tax brackets and the need for companies to maintain compliance while maximizing tax savings (Mehra, 2021). The study's conclusions about the balance between tax efficiency and regulatory adherence support this project's exploration of challenges firms face in dynamic tax environments and strategies to overcome them.

Another study focused on the effects of income tax reforms on employee financial well-being, showing that optimized compensation structures increase take-home pay and improve satisfaction (Patel, 2022). These results are relevant as they highlight the importance of tax policy awareness in maintaining workforce morale and retention, which is a critical aspect of compensation strategy covered in this research.

In summary, these studies collectively provide a comprehensive understanding of income tax law impacts on compensation structuring. They inform the project's strategic analysis by offering evidence-based insights on tax reforms, corporate adaptation, and employee outcomes. This literature forms the foundation for further investigation into compensation optimisation amid changing tax laws.

Research Methodology

Source of Data Collection

- **Primary Data**

Primary data is collected directly from people who are involved in compensation decisions, such as HR managers and finance professionals. This data is gathered through surveys and interviews to get firsthand information about how tax laws affect compensation structuring. It helps in understanding practical challenges and strategies used by companies.

- **Secondary Data**

Secondary data comes from existing sources like government tax reports, research papers, company financial records, and published articles on income tax and payroll. This data provides background information and supports analysis by offering insights into tax law changes and their broad impact on compensation policies.

Sampling Method

- **Random Sampling Technique:**

Random sampling will be used to select participants from different industries and company sizes to ensure a representative sample. This method helps avoid bias and ensures the findings can be generalized across the corporate sector. It involves randomly choosing survey respondents to collect diverse and reliable data.

Data Analysis and Interpretation

1. Analysis of Responses (primary data)

- **Awareness of Tax Reforms**

78% of HR managers and finance professionals reported being aware of the revised tax slabs under the new regime.

- However, only 52% indicated that employees fully understood the implications for their take-home pay.

- This highlights a communication gap between corporate strategists and employees.

- **Salary Structuring Adjustments**

- 65% of companies reported restructuring allowances (e.g., HRA, LTA) to maximize exemptions.

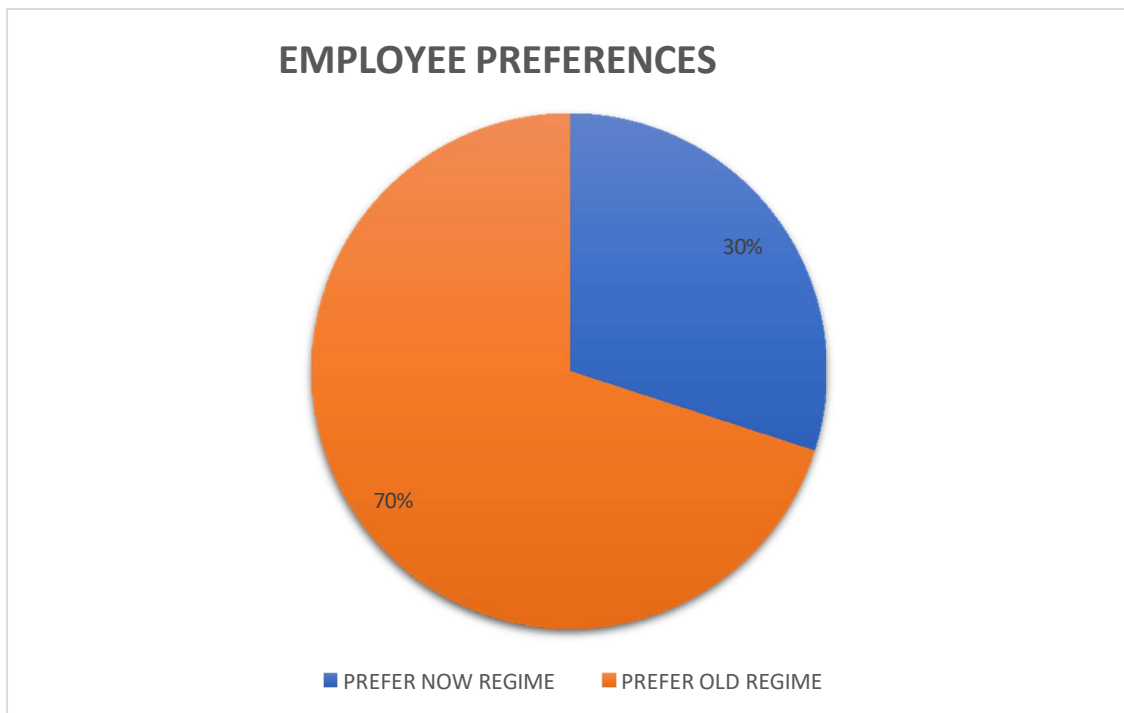
- 40% introduced flexible benefit plans, allowing employees to choose tax-efficient components.

- High-income earners saw reduced bonuses or deferred incentives due to increased surcharge rates.

- **Employee Preferences**

- 70% of employees preferred compensation packages under the old regime due to higher deductions

- Younger employees (below 35) showed greater acceptance of the new regime, valuing simplicity over deductions.





2. Secondary Data Insights

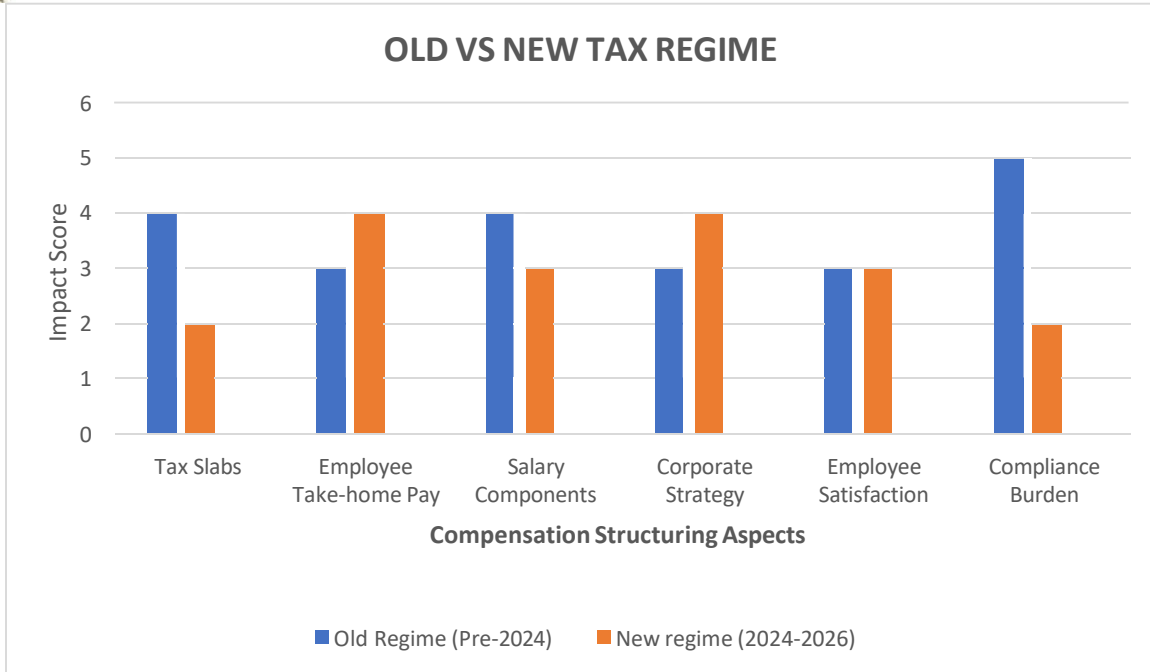
- Government Reports show that the new tax regime (FY 2024–2026) reduced effective tax liability for middle-income earners but increased it for high-income groups.
- Corporate Financial Records indicate a shift toward performance-linked incentives rather than fixed allowances, aligning with tax efficiency.
- Published Articles emphasize that companies adopting proactive tax planning strategies reported higher employee satisfaction and retention.

3. Comparative Interpretation

Aspect	Old Regime (Pre-2024)	New Regime (2024–2026)	Strategic Implication
Tax Slabs	More deductions, complex	Fewer deductions, simplified	Easier compliance but lower flexibility
Employee Take-home Pay	Higher for deduction-heavy packages	Higher for middle-income, lower for high-income	Need for tailored structuring
Corporate Strategy	Focus on allowances & exemptions	Shift to performance-linked pay	Aligns with productivity goals
Employee Satisfaction	Dependent on awareness of exemptions	Dependent on clarity of new regime	Requires HR-led tax education

4. Key Interpretations

- **Strategic Shift:** Corporates are moving from deduction-heavy packages to simplified, performance-based structures.
- **Employee Impact:** Middle-income employees’ benefit, while high-income earners face reduced net pay.
- **Communication Need:** Lack of awareness among employees reduces the effectiveness of tax-efficient structuring.
- **Future Outlook:** With the leaner tax law expected in 2026, companies must adopt flexible models that can quickly adapt to regulatory changes.



Conclusion

This research concludes that recent income tax reforms in India for FY 2024–2026 have significantly reshaped corporate compensation structuring, transforming it from a routine payroll exercise into a strategic human resource and financial planning function. The revision of tax slabs, reduction of deductions under the new regime, and the proposed introduction of a leaner income tax law from 2026 have collectively compelled organizations to reassess traditional salary designs and adopt more adaptive, tax-efficient models. The findings reveal a clear strategic shift among Indian corporates from deduction-heavy compensation packages toward simplified, performance-linked and flexible benefit structures. While middle-income employees generally benefit from reduced tax liability under the new regime, high-income earners experience relatively higher tax burdens, prompting companies to recalibrate incentive schemes and bonuses. This shift aligns compensation practices more closely with productivity and organizational performance goals, but also demands greater customization to address diverse employee needs.

The study further highlights a significant communication gap between employers and employees regarding tax reforms and their implications. Despite high awareness among HR and finance professionals, limited employee understanding reduces the perceived benefits of optimized compensation structures and may affect satisfaction levels. Therefore, effective tax education and transparent communication emerge as critical components of successful compensation planning. Overall, the research underscores that income tax laws play a pivotal role in shaping compensation strategies in India. As tax regulations continue to evolve, especially with the anticipated reforms in 2026, corporates must adopt proactive, flexible, and employee-centric approaches to compensation structuring. By balancing tax efficiency, regulatory compliance, and employee financial well-being, organizations can ensure sustainable remuneration practices that support both workforce satisfaction and long-term corporate objectives.



References:

1. Aggarwal, R. (2009). Economic development, business strategy, and corporate restructuring in India. *Journal of Indian Business Research*, 1(1), 14-25.
2. Arora, T. S., & Gill, S. (2022). Impact of executive compensation on corporate tax aggressiveness: evidence from India. *Managerial Finance*, 48(6), 833-852.
3. Berrone, P., & Gomez-Mejia, L. R. (2009). Environmental performance and executive compensation: An integrated agency-institutional perspective. *Academy of management Journal*, 52(1), 103-126.
4. Chaudhary, D., & Lakra, N. (2025). Dynamic Compensation Models for a Changing Workforce: Theoretical Perspectives and Emerging Trends. *People, Profits, and Policy: Redefining Workforce Economics and Financial Strategy in a Disruptive Era*, 42-57.
5. Das-Gupta, A. (2006). Income Tax Compliance Cost of Corporations in India, 2000–01. *Vikalpa*, 31(4), 9-30.
6. Handoo, A., & Sharma, K. (2014). A study on determinants of capital structure in India. *IIMB Management review*, 26(3), 170-182.
7. Manipol, V. S. (2025). Income Tax and Salary Liability Incentives: Microenterprise Law Highly Availed Privileges. *International Journal of Multidisciplinary: Applied Business and Education Research*, 6(3), 1081-1090.
8. Nofitasari, S. (2025). The Analysis of Tax Planning Strategies for Optimizing Corporate Tax Burdens: A Literature Review. *Global Journal of Taxation and Fiscal Policy*, 1(2), 35-44.
9. Prakash, A., & Yadav, I. S. (2025). Breaking barriers or reinforcing stereotypes? A comprehensive analysis of the gender pay gap and glass ceiling in Indian tech industry. *Labour and Industry*, 1-21.
10. Saleem, F. (2025). The Role of Tax in Moderating Capital Structure Dynamics and their Effect on Financial Stability and Profitability: Evidence from Malaysian Telecom Companies. *Journal of Tax Reform*, 11(2), 306-321.
11. Singh, P., & Agarwal, N. C. (2002). The effects of firm strategy on the level and structure of executive compensation. *Canadian Journal of Administrative Sciences/Revue Canadienne des Sciences de l'Administration*, 19(1), 42-56.
12. Thayyib, P. V. (2025). Firm-specific determinants influencing tax avoidance among Indian multinational corporations: a panel regression approach. *Cogent Economics & Finance*, 13(1), 2483869.
13. Vig, S. (2025). Delineating the novel aspects of the Indian social stock exchange: A new instrument for social finance. *Journal of Social Entrepreneurship*, 16(3), 869-890.
14. Wang, W., Meng, F., & Gao, S. (2025). The Interaction Effects of Income Tax Incentives and Environmental Tax Levies on Corporate ESG Performance: Evidence from China. *Sustainability*, 17(12), 5354.