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Taxation of Wealth in India

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Introduction

Taxation of wealth is advocated with a view to (1) achieving horizontal equity in regard to the taxation of income, (2) reducing inequalities of income and wealth, (3) incouraging efficient use of investment funds, and (4) achieving efficiency in administering income tax by cross-checking wealth owners for their income.

Though income has been considered as a more tangible indicator of taxable capacity, i s realised that people who owned wealth without having income above the exemption limit go Scot free and, as a result, the income tax was creating horizontal inequity. Wealth creates for its owner a continuing stream of enjoyment distinct from that associated with income or consumption. Hence, Nicholas Kaldor in his report to the Indian Government in the year 1956 justified wealth tax as an essential part of the direct tax system in order to achieve horizontal equity.

Using direct taxes for reducing inequalities of income and wealth is an age old argument which needs no repetition. The genesis of the rationale for wealth taxation has thus far been dependent upon the intensity with which the feudal vestiges of wealth are looked down upon by those social classes whose title to acquisition of political power has not been based upon their being a significant part of feudal configuration. With respect to India, the phenomenon is further compounded by the inequities created by the caste system and non-perculation of education, finance and prestige down to the lowest strata. It is therefore felt that the rationale for wealth taxation becomes a function of socio-economic realities and legacies rooted in the feudal and colonial past of Indian Society.

Arguments for Taxation of Wealth

Taxation of wealth has been advocated with a view to encouraging the use of accumulated wealth for efficient income yielding purposes, so that the accumulated wealth is not left idle. Taxation of wealth is expected to act as a spur to encourage owners of wealth to

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use it for more productive purposes in the sense of reallocating it from zero yielding assets to income yielding assets and from low yielding assets to high yielding assets.

Another argument rests upon the useful diversion which the taxation of wealth would cause towards investment in improving the skills, that is investment in non-physical capital. This purpose of tax on wealth has generally not been considered injurious to risk bearing.

Then there is an aovantage claimed for taxation of wealth in making direct tax system interlocking in character and thus making evasion of other taxes costly. Nicholas Kaldor recommended for the imposition of wealth tax in India to cross-check information on income for the purpose of income tax which would make evasion of income tax difficult.

However, while all these arguments may have an element of truth, in actual practice it is very difficult to achieve them all by levying one unique tax on wealth. This is particularly so in a developing economy like India. This is because wealth can be used to confer benefits it many ways, such as for earning income by owning financially productive wealth. It can be bequeathed to benefit kith and kin after the death of the owner. And it can be used to make gifts in one's life time. Thus wealth is owned, gifted and bequeathed. Therefore, in order to achieve the above mentioned objectives of taxation of wealth, all these uses of wealth should be brought under taxation. Consequently, in India an integrated system of taxes has been levied on wealth.

Various Types of Wealth Taxation in India

In India taxation of wealth includes (1) property tax on the ownership of property particularly in the form of buildings and urban real estate, (2) tax on the net wealth, (3) estate duty on the transfer of wealth after the death of the owner and (4) gift tax. Property tax on urban real estate including residential buildings has been allocated to state governments which in turn have assigned it to the local bodies. But the local bodies have not been levying property tax for achieving the above mentioned objectives. It has remained more as a benefit tax. The other three taxes are levied by the central government. Though tax on capital gains may be considered as a tax on realised wealth, it has been levied along with income tax. Therefore, we are confining our attention to only the last three taxes levied on wealth.

Wealth Tax

The Taxation Enquiry Commission of 1953-54 examined the feasibility of levying a wealth tax. The Commission praised this tax on economic, social and equity grounds as also to prevent tax evasion and avoidance. But the Commission rejected this tax on the ground of administrative difficulty involved in valuation. Later, Nicholas Kaldor in his Report on Indian Tax Reform (1956) recommended the imposition of this tax and accordingly this tax was introduced in 1957 and became effective from that year.

Entities Subject to Wealth Taxation

Wealth tax is levied on the net wealth of individuals and Hindu undivided Families

(HUFs). The recognition of the HUF as an assessee is in line with the Hindu law of the land which enshrines in its codes the principle of the religious unity of the family. But frequently the HUF is used as a device to frustrate the intention of tax policy and thereby reduces its impact. The tax base for the wealth tax is the net wealth which is the difference between aggregate value of assets minus all the debts outstanding on the valuation date. In this context it may be observed that for the first three years, wealth tax was levied on companies also. This was out of recognition of the blurring of the distinction between personal and corporate wealth due to historical circumstances associated with managing agency system. After the passing of the Indian Companies Act of 1956 it was thought that corporate wealth would get divorced from personal overtones. This explains the abolition of wealth tax on companies in the year 1960. However, the easy identification between large industrial houses and the structure of corporate enterprises, which persisted to this day, prompted a few observers to recommend a variant of wealth tax on companies. In fact because of the large scale evasion of wealth tax by owners of jewellery and real estate companies, through transfer of their personal jewellery and residential and other buildings to the name of their companies just to evade wealth tax, the Government of India has decided to levy wealth tax at the rate of 2% of the net wealth of closely held companies from FY 1983-84.

Rate Structure, Exemptions and Deductions

The tax rates, exemption limit and deductions for wealth tax are shown in tables 1 and 2. It will be noted that after the limit of the blanket exemption is crossed the tax is assessed on the entire net wealth. This practice highlights an element of novelty in taxing ownership of wealth. However, the motive of the government is easy to understand, namely to refuse another opportunity for manipulation and also to lessen the consequential work load on the administrative machinery. Therefore, it was thought proper to assess the entire net wealth in blanket fashion.

The rate structure of wealth tax has undergone frequent changes. Changes were affected in the year 1959, 1962, 1964, 1969, 1971, 1972, 1975, 1977 and 1980. Except in 1959, slabs were also recast each time. Thus, any one set of rates did not prevail for full three years. It has been noticed that changes in the rate structure have made a greater dent in the wealth held in the range of Rs. 5,00,000/- to Rs. 20,00,000/-. It may be mentioned here that the progressiveness of statutory rates was not wholly reflected in the effective rates of tax on wealth. A partial explanation for low effective rates over the period is the avoidance of tax by shifting from higher wealth brackets to lower wealth brackets by claiming exemptions and deductions and applying thereupon lower average rates. It has been found that the overall effective rate of wealth tax has increased from 0.61% in FY 1961-62 to 2% in FY 1976-77. Thus it is evident that the steepness of statutory rate is not wholly reflected in effective rates. Another significant feature of the wealth tax is, that during the period of more than $1\frac{1}{2}$ decades the percentage of wealth assessed to net national product has declined substantially. In FY 1961-62 it was 8.75% which declined to 4.52% in FY 1976-77.

This narrow base of wealth tax was one major factor responsible for the low proportion of the yield from wealth tax over the period. A major part of the increase in the absolute amount of yield have been mainly due to frequent lowering of exemption limits and enhancement of rates of tax.

Estate Duty

Ownership of wealth ceases on the death of the owner. If there were no legally managed system of inheritance, the wealth thus left over would naturally belong to the government *a la* the law of escheat or the law of treasure trove. Allowing such wealth to be enjoyed by the heirs of the deceased is a legal service rendered by the government both to the deceased in retrospect and to his heirs. Estate duty is the charge by the government for rendering these services. However, this argument cannot be translated into practice in its totality. Only the philosophy is accepted, and estate duty has been used to achieve other objectives also.

The Indian Taxation Enquiry Commission of 1924-25 recommended the imposition of estate duty. But the then Government of India did not act on that recommendation. During the Second World War, pressed by the revenue needs of War, the Government of India Act of 1935 was amended in 1944 to empower the central government to tax estates. A bill to levy estate duty was introduced in 1946 but it lapsed because of the dissolution of the legislature. It was again introduced in 1948. Even then it did not become effective because the legislature was again dissolved. It was only after India became independent, that too after the introduction of Constitution of India in 1950, that the estate duty bill was introduced in 1951 and became Act in 1953. Since 1953 the Estate Duty Act has undergone more than 15 amendments. The main objective of the estate duty was to reduce unequal distribution of wealth.

Basis of Taxation

The estate duty is imposed upon the gross value of the estate which is deemed to pass at the death of its owner. The cause and place of death is irrelevant to the applicability of estate duty and the same holds for the 'will' whether made or not. The scope of estate covers all moveable and immovable properties. In the event of the death of a member of HUF, the tax is computed by allocating to the name of the deceased his share of property. The computation of the tax base will also be the property which the deceased was competent to dispose of and also in which he could have life interest of any kind including maturing insurance endowments. Further, gifts become taxable under estate duty if made in contemplation of death. Similar is the case with gifts *mortis causa* and gifts of property made within two years preceding the death. Immovable property situated outside India is specifically exempted and movable property is exempted if the deceased was not domiciled in India. The rate structure and deductions are shown in tables 1 and 2. The progressive rate structure of estate duty is built on step system of rate fixation. The coverage of estate is global and not schedular. In the case of share and debentures of foreign company held by deceased, not being a person domiciled in India, the estate duty is chargeable at the following rates:

"If the value of the share or a debenture does not exceed Rs.5000/- the tax is nil,if it exceeds that amount the tax is 7.5%" It will be seen from the rates shown in Table 1 that the increase in the marginal rates of tax does not follow linear homogeneous pattern, though the extent of progression raises substantially after middle slabs. Thus on the first slab the increase is 6% followed by 5% then by 10% each up to the last but one slab.

Relief from Payment of Estate Duty

The provision for quick succession relief is made to obviate undue hardship caused by frequent deaths. No estate duty is payable if second death occurs within three months of the first death Likewise if estate duty has already been paid on the property, that estate cannot become liable for duty during specified intervals. Over a period of five years a relief by way of certain reductions in the amount of tax payable is given as shown below:

(i) where the second death occurs within 3 months of the first death, the duty payable is nil.

(ii) where the second death occurs within one year of the first death, the duty payable is reduced by 50% of the normal rate.

(iii) where the second death occurs within two years of first death, 40% of the normal rate.

(iv) where the second death occurs within three years of first death, 30% of the normal rate.

(v) where the second death occurs within four years of the first death, 20% of the normal rate.

(vi) where the second death occurs within five years of the first death, 10% of the normal rate.

Between FY 1962-63 and FY 1976-77, the number of estates assessed for tax increased by 2½ times. But the coverage of the tax base has remained narrow. Apart from the inherent narrow coverage of the estate duty, the apparently small absolute number of taxable estates is traceable to numerous exclusions and deductions whose magnitude also is so large that most of the estates could easily be taken out of the tax net through meticulous tax planning The rate schedule on an average prevailed continuously for about 9 years. In almost all years the maximum statutory rates were always higher than the effective rates. In fact the average effective rate declined from 9.23 in FY 1961-62 to 7.63 in FY 1976-77. As a result the estate duty yield as per cent of the total value of estate declined from 7 65 in FY 1961-62 to 6.45 in FY 1976-77.

Gift Tax

The case for gift tax was examined by the Taxation Enquiry Commission of 1953-54 in the following way: "A gift tax is theoretically an attractive proposition, but it requires considerable experience of the operation of estate duty before it can be introduced. As more experience is gained on this type of work, the feasibility of introducing a gift tax can be considered. Moreover, the rates of death duty are at present low The value of gift tax as a second line of defence for estate duty is greater if the rates of latter are steeply progressive.

We are, therefore, not in favour of introducing the gift tax at this state." But in 1956 Kaldor strongly advocated the imposition of gift tax to plug evasion of estate duty and, accordingly, it has been levied in India since 1958. The Gifts Tax Bill of 1958 justified the tax in the following terms: "Gifts from one person to another provide a convenient means of avoiding or reducing liability to Estate Duty, Income-Tax, Wealth Tax and Expenditure-Tax. The only effective method of checking such attempts at evasion or reduction of tax liability is by levying a tax on gifts."

Concept and Computation

Thus, gift tax was intended to serve the purpose other than raising revenue, i. e. to block the loopholes, or evasion of other direct taxes. Therefore, the revenue purpose remains subordinated to the social purpose. The makers of gifts who are brought into this tax-net comprise individuals, HUFs, companies, firms and associations of persons. The levy has as its base, transferred moveable or immoveable property for the relevant assessment year. The two basic attributes imputed to the transfered to make them taxable are the voluntary nature of gifts and absence of any pecuniary consideration. The concept of deemed gifts remains embodied in the design of tax in order to prevent evasion. The computation process of tax base is done by adjusting aggregate over permissible exemption and then deduct blanket exemption upto Rs. 5000/-. But no exemption is applicable to the gift made out of spouse's gifts. Since 1976 gifts made in any one or two years previous to the assessment year have been aggregated.

It is said that if the yield from gift tax increases it indicates a large scale evasion of estate duty. Precisely for that reason gift tax was imposed. But even after that if increasing yield from gift tax indicates evasion of estate duty, the purpose is defeated. The practice of small gift making as a device of avoiding estate duty has become a convenient method of tax planning in India For this reason the Wanchoo Committee recommended basic exemption to be reduced to Rs. 1,000/- per annum.

Since gift tax is a complementary tax for estate duty any alterations in estate duty requires simultaneous changes in the rate of gift tax. Since there have not been frequent changes the rates of estate duty in gift tax rates also show that on an average one set of rates remained operative for more than 5 years. Beginning with 1958-59 they were altered only three times and each time slabs were also recast. Initially there were eleven slabs which were reduced to six in FY 1964-65. They were increased to 10 in 1966-67 and reduced to 9 subsequently. It has been found that gift making in small amounts as a device for evading estate duty has increased. This is borne out by the smaller rate of increase in the value of taxable gifts over the years. Further, there has been a continuous erosion of the tax base by deductions and allowances. The extent of erosion has been around 30% of the tax base. Further, individuals as gift making assessees outnumbered other types of assessees and the value of taxable gifts per assessee declined by 53% between FY 1961-62.

Evaluation

The foregoing analysis of the three taxes on the ownership and transfers of wealth in India brings out the hollowness of the real populist nature of the slogan in the name of achieving a socialistic pattern of society. The low yield from the taxes on the ownership of wealth and its transfers has been a matter of common knowledge ever since they were levied in India. The yield from these taxes as a percentage of total revenue from direct taxes of the central government has continuously declined over the years. This is evident from Table 3. The main reason for this declining revenue importance of taxes on wealth has been the erosion of tax bases by exemptions, deductions and allowances. If there is any successful tax planning in India it has been in the field of taxation of wealth. A doubt arises whether these taxes were really intended to be seriously applied for the purpose of reducing inequalities of wealth at all !

Wealth Tax Base Erroded

In the case of wealth tax the device of gift making has reduced the tax base enormously. The number of gift tax payers as percent of wealth tax payers went up from 25 to34% between FY 1961-62 and FY 176-77 (See Table 5). Similarly, the percentage of gross gift to total net wealth during the same period increased from 1.69 to 2.57%. In other words about 2% of the net yield could be depleted annually through the medium of gift. The tax planning over a period of 15 to 20 years would thus reduce the total taxable wealth by 30 to 40%. Further, gift making is also used to aviod estate duty. The device of splitting the wealth in the upper brackets has also increased particularly in the case of HUFs. Although the total number of HUFs increased from 2,345 to 7,027 during the period between FY1961-62 to FY1976-77, there occurred significant numbers of assessees belonging to lower brackets of wealth thereby proving the suspicion that the assessees in the upper brackets resorted to splitting up of their wealth to minimise the tax burden. Besides, there has been widespread evasion of tax through the creation of private trusts and transfer of assets to companies.

Gift Tax Structure Proves Inefficient

In the case of gift tax, gift tax payers as a percentage of wealth tax payers increased by 9% thereby indicating the failure of gift tax as a measure for preventing aviodance of wealth tax and estate duty. In India, gift tax and estate duty have completely separate treatment in the sence that both have different sets of exemptions, rate structure and even assessing authorities. The only link between these two taxes is the allowable credit against estate tax liability to gift tax on gifts made two years preceding death. Even the Public Accounts Committee have highlighted the revenue loss on account of the parallel operation of administration for these two taxes, apart from duplicating the administrative cost itself. The rate structure of gift tax, which is lower than that of estate duty at the first and the last slabs, opens flood gates for tax avoidance through making *inter vivos* gifts. The disparity in the

rates was very wide until 1970-71. Later on, the rates of gift tax were so revised as to make average rate of each slab higher than average rate for estate duty except in the slab of highest value where it was just marginally lower. Even than a shrewd tax planner can reduce his tax liability through four devices. In the first case, *inter vivos* transfers may be used to split the wealth into two portions and that portion which is available for being taxed by gift tax will attract a lower rate due to progression in rate structure. In the second device, the size of the estate is reduced, namely the other portion when taxed by estate duty will also be attracting a lower rate for the same reason viz, the progression of the rate structure. In the third device, the size of the estate is reduce further by deductions of amount paid as taxes on *inter vivos* gift made prior to two years before death. And in the forth case, gifts made during the life time preceding two years before death are not aggregated for estate duty purposes. A good tax planner will be able to save from each of the four devices substantial amount of tax liability. The main purpose of levying all the three taxes was to catch the wealth owner at least at any two of the three acts of owning, bequeathing and gifting. But it is possible to escape from all the three taxes. If caught, at worse he may have to pay only nominal tax under gift tax by proper tax planning. This is mainly because of generous deductions and disparity in the rate structure of these taxes.

It is frequently maintained that the inequality in the distribution of wealth is higher than the inequality in the distribution of income. This has been the finding of the Mahalanobis Committee which went into the distribution of income and wealth in India. This is mainly because of the feudal past which has persisted into the present. The emergence of the "black money" phenomenon has further perpetuated it. Against this, the equalisation effect of these direct taxes has been negligible as is evident from Table 4. It may be observed that all these three taxes have proportional incidence which means the socio-political objective of these taxes namely, reduction of inequalities of wealth has been defeated. The reasons for this ineffectiveness of these taxes have already been explained. Therefore, it is necessary to bring about some reform in the existing structure of taxation of wealth in India with a view to achieving the avowed objectives.

Taxation of Wealth Needs Fundamental Reforms

One probable solution would be to reduce numerous deductions and allowances to a minimum, and equalise the exemption limits and the rate structure for all the three taxes. This is not a practicable package of reforms because the gift tax cannot be treated on par with estate duty or wealth tax because of the amount of tax base and rates of tax involved. Therefore, the rate structure will have to be different for wealth tax and gift tax and also for estate duty and gift tax. In view of this practical problem, a more practicable solution would be to reduce the deductions and allowances under the wealth tax to a minimum and replace the existing estate duty and gift tax by one single tax on the transfer of assets of the type of capital transfer tax prevailing in England. This new tax will make it possible to altogether and the evasiono fwealthtax and estate duty through gifts. It will enable the government

to equalise the rate structure of wealth tax and the assets transfer tax. The exemption limit for the assets transfer tax may be fixed at Rs.5000/- annually with a cumulative maximum life time exemption limit of Rs. 0.15 million. And all the transfers made in one's life time will have to be aggregated at the time of assessing an assessee for assets transfer tax. Whenever the value of his assets transferred exceeds the exemption limit, he becomes liable for this assets transfer tax. The rates of assets transfer tax may start with 5% and go up to 85% on the value of the assets transferred exceeding Rs. 2.0 million. The suggested rate structure for the proposed assets transfer tax are presented in Table 6

The essential feature of this tax should be that the rate schedule should be cumulative of all the transfers over time and for the purpose of calculating tax at any given point of time, all past asset transfers should be treated as made in the assessment year for computing tax liability. However, the tax paid in the previous year should be deducted. This will give relief to the tax payer and at the same time prevent any evasion by splitting the assets. For the purpose of this tax all assets transfers made in any form, even to a charitable trust should be included. The philosophy is that if a donee is prepared to pay donation to trusts and institutions, he should be equally generous to pay a few more rupees in the form of tax. Tax evasion through *inter vivos* gifts will be elimniated under assets transfer tax and the tax liability will be higher than under the existing system of dual tax on the transfer of property, namely estate duty and gift tax.

The case for tax reform is long overdue in the case of taxation of wealth in India and a committee for reappraisal of existing tax laws should be formed. The sooner this is done the better.

Table 1

Rate Structure of Wealth Tax, Estate Duty and Gifts Tax in India

Wealth Tax Rates (% of netwealth)			Estate Duty Rates (% of gross value of estate)		Gifts Tax Rates (% of gross value of gift)	
Slab	For Indi-viduals	For HUFs	Slab	For Indivi-duals	Slab	All assessees
Up to Rs. 150,000	Nil	Nil	Upto Rs. 150,000	Nil	Upto Rs. 5,000	Nil
Rs.150,001 to Rs.250,000	0.5	1.5	Rs.150,001 to Rs.200,000	10	Rs. 5,001 to Rs. 20,000	5
Rs.250,001 to Rs.500,000	1.0	2.0	Rs.200,001 to Rs.350,000	15	Rs. 20,001 to Rs. 50,000	10
Rs.500,001 to Rs.1,000,000	2.0	3.0	Rs.350,001 to Rs.500,000	25	Rs. 50,001 to Rs. 100,000	15
Rs.1,000,001 to Rs.1,500,000	3.0	5.0	Rs.500,001 to Rs.1,000,000	30	Rs. 100,001 to Rs. 200,000	20
Above Rs.1,500,000	5.0	5.0	Rs.1,000,001 to Rs.1,500,000	40	Rs. 200,001 to Rs. 500,000	25
			Rs.1,500,001 to Rs.2,000,000	50	Rs. 500,001 to Rs. 1,000,000	30
			Above Rs.2,000,000	85	Rs. 1,000,001 to Rs. 1,500,000	40
					Rs. 1,500,001 to Rs. 2,000,000	50
					Above Rs. 2,000,000	75

Table 2

Deductions Allowed for Wealth Tax, Estate Duty and Gifts Tax in India

Wealth Tax Deductions (per year)	Estate Duty Deductions (per year)	Gift Tax Deductions (Per year)
One residential house of the value of Rs. 150,000.	Gifts upto Rs. 10,000 made in consideration of marriage.	Foreign exchange remitted from abroad to persons resident in India.
One house used for store house and cattleshed valued at Rs. 75,000.	Gifts considered to be a part of normal expenditure upto Rs.10,000.	Gifts made to one's spouse upto the value of Rs. 50,000.
Two Motor cars for personal use upto the value of Rs. 30,000 aggregate.	One residential house upto the value of Rs. 100,000.	Gifts made to relative for the expenses of marriage not exceeding Rs. 10,000.
Furniture and household goods upto the value of Rs. 40,000.	Furniture and household goods upto Rs.2,500/-.	Specified financial assets upto the value of Rs.150,000.
Insurance policy, pension benefit, provident and gratuity benefits.	Insurance policy, pension benefits, provident fund and gratuity benefits.	Insurance policy, pension benefits, provident fund and gratuity benefits.
Specified financial assets like fixed deposits etc. upto the value of Rs. 150,000.	Drawings and Paintings.	Gifts made for charitable purposes.
Scientific equipment upto the value of valued Rs. 20,000.	Specified financial assets to upto the value of Rs. 150,000.	
Jewellery and ornaments upto the value of Rs. 50,000.	Deductions are allowed for debts incurred for the sole benefit of deceased.	
Cash on hand upto Rs. 20,000.		

Note : *These deductions are in addition to basic exemptions to the extent of Rs. 15,0000/- each in the case of wealth tax and estate duty, and Rs. 5,000/- in the case of gift tax.*

Table 3

Revenue from Taxes on Wealth in India

Year	Estate duty (Rs.million)	Percentage to total yield from direct taxes	Wealth tax (Rs.million)	Percentage to total yield from direct taxes	Gift tax (Rs.million)	Percentage to total yield from direct taxes.
1	2	3	4	5	6	7
1955-56	18.10	1.05	—	—	—	—
1956-67	21.10	1.02	—	—	—	—
1957-58	23.10	0.09	70.40	3.02	—	—
1958-59	27.00	1.11	96.70	3.96	9.80	0.40
1959-60	29.10	1.05	121.10	4.39	8.10	0.29
1960-61	30.90	1.05	81.50	2.76	8.90	0.30
1961-62	42.10	1.24	82.60	2.42	10.10	0.30
1962-63	39.40	0.92	95.40	2.23	9.70	0.23
1963-64	46.70	0.84	102.00	1.84	11.20	0.20
1964-65	54.30	0.90	105.00	1.73	21.20	0.35
1965-66	6.60	1.10	120.50	2.00	22.70	0.38
1966-67	22.60	0.95	105.80	1.60	17.50	0.26
1967-68	63.70	0.96	106.70	1.62	13.00	0.20
1968-69	67.00	0.95	111.00	1.57	15.00	0.21
1969-70	69.00	0.83	156.00	1.86	20.00	0.24
1970-71	79.00	0.90	153.00	1.75	24.00	0.27
1971-72	90.00	0.86	252.00	2.39	35.00	0.33
1972-73	101.00	0.81	359.00	2.86	40.00	0.32

Table 4

Progression and Redistribution Effect of Taxes on Wealth in India

Year	Wealth Tax		Estate Duty		Gift Tax	
	$\frac{G}{G^*}$	$\frac{G-G^*}{G}$	$\frac{G}{G^*}$	$\frac{G-G^*}{G}$	$\frac{G}{G^*}$	$\frac{G-G^*}{G}$
1961-62	1.0032	0.0033	1.0662	0.0621	1.0238	0.0232
1962-63	1.0039	0.0039	1.0671	0.0629	1.0287	0.0279
1963-64	1.0048	0.0047	1.0827	0.0764	1.0187	0.0184
1964-65	1.0041	0.0041	1.0598	0.0564	1.0602	0.0567
1965-66	1.0036	0.0035	1.0608	0.0573	1.0777	0.0721
1966-67	1.0040	0.0040	1.0939	0.0858	1.0732	0.0682
1967-68	1.0044	0.0046	1.1316	0.1163	1.0515	0.0489
1968-69	1.0030	0.0040	1.0845	0.0779	1.0731	0.0680
1969-70	1.0041	0.0041	1.1260	0.1119	1.0613	0.0578
1970-71	1.0040	0.0040	1.0983	0.0895	1.0297	0.0288
1971-72	1.0049	0.0049	1.0880	0.0809	1.0608	0.0573
1972-73	1.0034	0.0034	1.0973	0.0887	1.0658	0.0617
1973-74	NA	NA	NA	NA	NA	NA
1974-75	1.0045	0.9046	1.0918	0.0841	1.1156	0.1036
1975-76	1.0043	0.0043	1.1007	0.0915	1.0779	0.0723
1976-77	1.0030	0.0031	1.0785	0.0728	1.0841	0.0776
1977-78	1.0056	0.0054	1.0800	0.0741	1.0841	0.0776

Notes: (1) NA: Data are not readily available for this year and hence the relevant measures are not estimated

(2) G = Gini-coefficient of wealth distribution before tax, and G^* = Gini-coefficient of wealth distribution after tax.

(3) $\frac{G}{G^*}$ is the summary measure of progressivity suggested by R.A. Musgrave, *The Theory Public Finance*, Mcgraw Hill Co., Tokyo, 1959.

(4) $\frac{G-G^*}{G}$ is the equalisation coefficient proposed by Hiromitsu Ishi.

1973–74	106.00	0.76	358.00	2.57	48.00	0.35
1974–75	105.00	0.63	392.00	2.36	51.00	0.30
1975–76	117.00	0.52	537.00	2.42	51.00	0.23
1976–77	118.00	0.50	604.00	2.57	57.00	0.25
1977–78	128.00	0.52	485.00	2.00	56.00	0.23
1978–79	131.00	0.51	554.00	2.17	58.00	0.23
1979–80	140.00	0.50	645.00	2.28	68.00	0.24
1980–81	163.00	0.54	674.00	2.24	65.00	0.22
1981–82(RE)	170.00	0.45	750.00	1.98	67.00	0.18

Note: *RE : Revised Estimates*

Source: *Reserve Bank of India Bulletins*

Table 5

Number of Estates Assessed and Number of Wealth and Gifts Tax Payers In India

Year	Total No. of Estates Assessed	Total No. of estates assessed as percent of total	Total No. of wealth tax payers	Total No. Gift tax payers	Per-cent-age of col.(5) to col.(4)	Total Net Wealth Asse-ssed (Rs. lkhs)	Gross Gifts Asse-ssed (Rs. lkhs)	Per-cent-age of col. (8) to col. (7)
1	2	3	4	5	6	7	8	9
1960-61	NA	NA	23736	5608	23.62	148517	–	–
1961-62	NA	NA	26438	6648	25.14	155825	2629.33	1.69
1962-63	3617	26.9	29327	7649	26.08	174415	2958.96	1.70
1963-64	3935	23.6	28629	8576	29.95	152271	2846.29	1.87
1964-65	4801	26.4	52783	14329	27.16	187759	3572.44	1.90
1965-66	4781	25.0	66161	16117	24.36	195059	3170.11	1.63
1966-67	5283	26.8	68884	11586	16.81	196022	2671.58	1.36
1967-68	5539	27.4	68934	11389	16.52	196080	2650.26	1.35
1968-69	5028	15.5	80573	14459	17.95	203879	3436.37	1.69
1969-70	4765	13.3	129164	18495	14.32	328541	4322.99	1.32
1970-71	6496	17.8	121406	17176	14.15	297852	4264.55	1.43
1971-72	6777	17.4	125958	22012	17.48	313560	4593.75	1.47
1972-73	6354	15.5	117724	25724	21.85	303394	5186.02	1.71
1973-74	NA	NA	NA	NA	NA	NA	NA	NA
1974-75	8267	15.7	119986	39517	32.93	287430	7153.21	2.49
1975-76	8226	13.7	125144	46047	36.80	296081	7918.56	2.67
1976-77	8968	13.7	135275	45484	33.62	316810	8134.50	2.57

Source : *All India Estate Duty, Gift Tax and Wealth Tax Statistics (Annual)*

Table 6

Suggested Rate Structure for Assets Transfer Tax

Value of assets transferred in a year	Rate of tax as percent of the value of the assets transferred.
Rs. 5,001 to Rs. 10,000	5
Rs. 10,001 to Rs. 25,000	10
Rs. 25,001 to Rs. 50,000	15
Rs. 50,001 to Rs. 1,00,000	20
Rs. 1,00,001 to Rs. 2,00,000	25
Rs. 2,00,001 to Rs. 5,C0,000	35
Rs. 5,00,001 to Rs. 1,000,C00	50
Rs. 1,000,001 to Rs. 2,0C0,C00	65
Above Rs. 2,C00,000	85

Selected References

1. Chawla, O. P. (1970): *Personal Taxation inIndia,* (Bombay: Somaiya Publications).
2. Government of India (1956): *Indian Tax Reform: Report of a Survey,* (New Delhi), July.
3. Government of India, Planning Commission (1964): Report of the Committee on *Distribution of Income and Levels of Living, Part I, Distribution of Income and wealth and concentration of Economic Powers,* (New Delhi).