TAXING RICH - GS I, II AND III MAINS

Q. Bring out the necessity of levying wealth tax at the present scenario and also throw a light on challenges in its implementation. (10 marks, 150 words)

News: *Can the uber-rich worldwide be taxed better?*

What's in the news?

- Recently, French economist Gabriel Zucman has in a recent report commissioned by Brazil's G-20 presidency recommended an annual 2% tax on individuals holding wealth exceeding $1 billion a suggestion intended to serve as the starting point for a global discussion on ensuring under-taxed billionaires are made to contribute more to reduce inequality worldwide.

Wealth Tax:

- Wealth tax is a direct tax unlike the goods and services tax or value-added tax, can take several forms, such as property tax, inheritance or gift tax and capital gains tax.
- It aims to reduce the inequalities of wealth.
- It is based on the market value of assets owned by a taxpayer and charged on the net wealth of super rich individuals.

Status of Wealth Tax in India:

Abolished Wealth Tax:

- The government abolished wealth tax as announced in the 2015 budget.
- In its place, the government decided to increase the surcharge levied on the 'super rich' class by 2% to 12%. (Super rich are persons with incomes of Rs.1 crore or higher and companies that earn Rs.10 crores or higher).

Abolished to Simplify Tax Structure and Discourage Tax Evasion:

- The abolition was a move to do away with high costs of collection and also to simplify the existing tax structure thereby discouraging tax evasion.

Need of Levying Wealth Tax at Present:

1. High inequality:

- India's top 10% population owns 65% of the country's wealth, while the bottom 10% owns only 6%, according to the World Inequality Database, 2022.

2. Massive Accumulation of Wealth in a Few Hands:

- A small section of people has access to a large share of economic assets and resources that remain almost completely untaxed and thus unavailable for public allocation.

3. Capital Gains Tax has a Limited Base:

- Capital Gains tax exists in India, but applies only to transactions and hence is limited in its base.

4. Wealth Largely Depends on Inheritance and Privilege:

- Wealth, much less than even income, has little to do with one's education, merit or efforts, it is largely dependent on inheritance and opportunities that come with the advantages associated with belonging to one of India's privileged classes and castes.

5. India does not have Inheritance Tax:

- India scrapped its estate duty in 1985 and has no inheritance tax.

Challenges in Implementing Wealth Tax:

1. Difficulty in Fair Assessment:

- Assessing and taxing wealth is complex, particularly with diverse assets like real estate and cryptocurrencies.

2. Liquidity Problems:

- A wealth tax could unfairly burden people with illiquid assets, like a home, which might need to be sold under distress to pay taxes.

3. Visibility of Assets:

- Visible assets, especially stocks, are easier to tax, but this could unfairly target certain forms of wealth.

4. Economic Impact:

- A wealth tax might discourage businesses from going public and could lead to capital flight to lower-tax countries.

5. Inefficiency in Capital Allocation:

- Such a tax could make capital allocation less transparent and efficient, adversely affecting the economy.

WAY FORWARD:

1. Tax Base:

- Defining what constitutes wealth and determining the valuation methods are crucial.

2. Tax Rate:

- The tax rate must be carefully calibrated to balance revenue generation and economic impact.

3. Exemptions:

- Considering exemptions for certain assets or income levels can mitigate negative consequences.

4. Enforcement:

- Robust enforcement mechanisms are essential to prevent tax evasion.

5. Global Coordination:

- International cooperation can help prevent capital flight and ensure a level playing field.