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GENERAL STUDIES 3: ECONOMY

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WEALTH TAX IN INDIA: REINTRODUCTION AND CHALLENGES

Overview of Wealth Tax Proposal

- Wealth tax is suggested as a solution to reduce inequality and fund sectors like health and education.
- Critics point to issues like wealth measurement, capital flight, and tax evasion that may undermine its effectiveness.

Key Implementation Challenges

- **Asset Valuation Problems:** Accurately measuring wealth, especially non-liquid assets like real estate and gold, is complicated.
- **Behavioral Shifts:** High taxes on liquid assets may push the wealthy to invest in less taxable or non-productive assets.
- **Risk of Capital Flight:** The possibility of capital and skilled individuals leaving the country could hurt the economy.

India's Experience with Wealth Tax

- Wealth tax was abolished in 2016-17 after generating less than 1% of gross tax revenue.
- High administrative costs and widespread tax evasion led to its removal.

Reasons to Support Wealth Tax Reintroduction

- **Reducing Inequality:** Concentrated wealth limits access to opportunities for a large portion of the population, hindering development.
- **Better Wealth Tracking:** Advanced technologies could improve the tracking of wealth, overcoming past inefficiencies.
- **Global Examples:** Countries like Norway have managed wealth taxes effectively with minimal capital flight, supported by strong public services.

Criticism and Opposition to Wealth Tax

- **Growth over Redistribution:** Some argue that economic growth, not wealth redistribution, is key to improving social outcomes like health and education.



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- **Public Finance Alternatives:** Critics suggest focusing on broader taxes, such as income tax and GST, instead of wealth tax.
- **Effectiveness of Spending:** Concerns exist that simply allocating wealth tax revenues to education and other sectors may not result in significant improvements due to inefficiencies.

Other Approaches to Address Inequality

- **Equitable Tax Systems:** A more comprehensive tax system that includes labor, capital, and real estate taxes could help reduce inequality.
- **Global Cooperation:** Enhanced international collaboration on wealth transparency could help combat tax evasion.
- **Targeted Investments:** Using tax revenues more effectively in public goods and infrastructure could balance economic growth with equity.

Conclusion

- The reintroduction of wealth tax could fund development, but its challenges, economic consequences, and effectiveness in tackling inequality must be addressed.
- A balanced approach, combining growth and fair opportunities, is necessary for achieving both economic prosperity and social equity.

Source: <https://www.thehindu.com/opinion/op-ed/should-the-wealth-tax-be-reinstated-in-india/article69030610.ece#:~:text=There%20is%20a%20case%20for,and%20opportunities%20for%20many%20people.>