



**Wealth Tax**

THE primary purpose of taxation is to raise money for administration of the country. The modern state makes use of taxation also to promote savings for industrial development and to reduce wide disparities in wealth.

Taxes are either direct or indirect. Direct taxes are normally levied on income. Experience has shown that the income of a person is a good measure of his ability to pay taxes. Now for the first time in India, a new tax called the Wealth Tax has been introduced in addition to existing income tax and other taxes. This is a revolutionary change having far-reaching effects not only on our economic structure, but also on the social structure. Let us examine some of the features of this tax and see whether it will do good to the country as claimed or result in more harm than good.

According to the Wealth Tax Bill, this tax is applicable to individuals having over Rs. 2 lakhs, Hindu joint families having over Rs. 3 lakhs and Companies with assets of more than Rs. 5 lakhs.

For all individuals and Hindu joint families the tax is  $\frac{1}{2}\%$  for the first Rs. 10 lakhs over the exempted limit,  $1\%$  for the next Rs. 10 lakhs and  $1\frac{1}{2}\%$  on wealth over that. On companies a flat rate of  $\frac{1}{2}\%$  is proposed.

Now the question arises, what is wealth ? The Bill has defined wealth as the assets of an individual but excludes certain items like works of art, books and pension. In respect of some other items a limit is prescribed. For instance, tools and instruments to enable a person to carry on his profession are exempted up to a value of Rs. 2,500.

According to the Bill, 26,000 individuals and about 4,000 Hindu undivided families and 6,000 companies will be liable to Wealth Tax.

On the face of it, Wealth Tax looks very attractive. **If we examine a little closely, that attraction is but a mask which hides something dangerous to our democratic way of life and economic progress.**

The attraction is that the Wealth Tax will reduce disparities in wealth in India. Now, it is true that no right-thinking person in the middle of the 20th century will dispute the necessity to reduce such wide disparities as exist in India. The important question is how to attain this goal. This should not be achieved by methods which may give immediate results but which in the process destroy several other values of life and endanger national progress.

It is argued that countries like Sweden, Norway, The Netherlands and West Germany have wealth tax, But there is an important distinction between these countries and India. These countries are economically advanced unlike India where economic development is just beginning. In these Western countries, the standard of living is high for

all citizens and, therefore, reduction in wide disparities of income and wealth are the next logical step in the direction of a Welfare State.

If we try to apply Wealth Tax to India at this juncture, **it** may certainly reduce disparities in wealth. But **it** will do more harm to the country in the long run. **It will retard capital formation which is essential for the rapid industrialisation of the country.** History of countries like Japan teaches us a valuable lesson. **It** shows that in the early stages of industrialisation, **it** is only a comparatively small number of individuals and firms who can promote and maintain industries. Once this industrialisation begins, more and more wealth is created which gradually seeps into all strata of society in the form of wages, bonus and other benefits. This wealth is also the purchasing power of the people, with which the demand for a large number **of** articles arises. This demand leads to increased productivity and more wealth. At the same time, a part of the earnings are saved and **the** collective savings of the people are used to invest in new industries.

**Thus people find that their standard of living goes up rapidly and that through ownership of shares they come into ownership of industries. This is economic democracy in action and the road to prosperity.**

It is argued by some that it is dangerous to allow wealth in the hands of a comparatively small number of people even in the early stage of industrial development. These fears are baseless. The modern State has got so many powers in its hands that it can effectively check any misuse of wealth. To mention only a few of these powers : Anti-Trust Law, which prevents monopolies ; a Graduated Income-tax structure which gets from each individual according to his income his share for the maintenance of law and order and administration of the country ; Death Duties, which tax away on his death a portion of every rich individual's wealth to prevent accumulation of wealth through mere inheritance ; excise duties on luxury items, which is a means of getting money

for the State for the welfare of the **people** when the rich want to **buy** luxury goods.

Some may argue that wealth is useless in the hands of a comparatively few individuals because it is merely hoarded instead of being invested. This objection is not valid in view of the powers in the hands of the Government. The Government can create conditions to encourage capital formation and investment in new industries and expansion of existing industries.

Arguments are forwarded for levy of Wealth Tax on technical grounds. **It** is said that the income of a person is not the measure of his capacity to contribute to the State. Moreover, **it** is said, by taxing income, inequalities cannot be reduced. Therefore, the Wealth Tax is recommended.

This argument amounts to saying that to remedy one illness, another should be imposed on the patient. While the income-tax may

be defective in some respects, there is no doubt that it is a reliable method of taxation tried and proved by the experience of all nations in history. If income-tax is defective, it should be improved.

Another argument forwarded in favour of wealth tax is that income-tax discriminates between unproductive and productive wealth. Wealth tax will not correct the situation. Instead of encouraging investment in industries and commerce, wealth tax will drive wealth underground in the form of gold, jewellery and other assets.

One important argument forwarded in support of Wealth Tax is that unlike income, wealth cannot be hidden. Nothing can be more fallacious. Ingenious people will devise ways and means to hide wealth more effectively than income !

The administrative problems in assessing a person's wealth are almost insurmountable. Each and every item of wealth has to be



assessed and difference of opinion regarding the value of these items is bound to arise.

We have seen how a close scrutiny of the Wealth Tax shows that virtues claimed on its behalf do not obtain in reality. This is only one aspect of the Wealth Tax. There is another aspect which will convince any fair-minded person how dangerous the tax is in its application. The tax officers are given wide powers for assessing the wealth. These powers will be used, rather misused, to pry into the life of a citizen who is liable to wealth tax. A man's home is his retreat from the world. To allow Government officers to investigate every nook and corner of the home is to invite Police Raj in the country.

In the implementation of Wealth Tax, corruption in Government will increase by leaps and bounds. Human nature being what it is, officers will be inclined to take bribes. This corrupts not only the administration but also the general morale of the public.

The administrative powers 'can' be; as most likely, used by unscrupulous officers to harass individuals.

At a time when the need for **co-operation** is stressed, Wealth Tax will destroy one of the finest forms of co-operative organizations in India, viz., Hindu undivided family. The impact of the Wealth Tax Bill will be to split several of these families into individual units. The disintegration of Hindu undivided families will have undesirable repercussions on the entire social structure.

The aim of a Welfare State is to combine liberty with security for all citizens. Unfortunately at this stage of our development, the State cannot provide social security as in Western countries. Fortunately, our social structure has got a form of social security. Wealthy people maintain not only their families but also a large number of dependents and relatives. With the imposition of Wealth **Tax**, they will be obliged to turn away these dependents and relatives. The **result** will be to

bring misery upon a large number of individuals whom the State cannot maintain of its own.

Wealth Tax on Companies is most ill-conceived. It will hamper severely development of industries in India, and scare away potential foreign investment.

The goal before the country is rapid industrialisation for raising standards of living. Wealth Tax on companies at this early stage of our industrial development **will** add a burden on our industries which is beyond their capacity to bear. Our industries, **will** not be able to compete in foreign markets and the resulting fall in foreign exchange earnings will affect our imports of badly needed machinery. Wealth Tax on companies also amounts to double or treble taxation. The company's wealth belongs to shareholders who in turn are taxed. This double-taxation does not **fit** into any scheme of justice.

**To sum up, Wealth Tax is most undesirable in India at this stage of our economic development.** It will do incalculable harm to the country and its citizens :

- It will kill incentives for production.
- It will retard capital formation and industrial development.
- It will open up the way for great corruption in administration.
- It will have bad effects on the social structure.
- It will jeopardise individual liberty.

If we wish to retain democracy and rapidly to industrialise the country for raising the standards of living, creating employment opportunities and bringing about a Welfare State, Wealth Tax will merely defeat the ends in view. We have to remember that wealth does not consist merely of material objects. The incentive to produce, the delicate balance of forces in a social structure, individual liberty and

public life of a high moral order constitute the invisible wealth of a nation. Shall we throw this wealth overboard in a moment of haste and impatience ?

All lovers of industrial progress and democracy will have no difficulty in finding the answer.

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