Should FM abolish Wealth Tax?

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WEALTH TAX has always been a political subject and understandably, one of the favourite topics for the country"s Left. No wonder then that the Left, in its pre-Budget memorandum for the 2007-08 asked for the wealth tax rate to be raised from 1% to 3% and to cover the rural and urban crorepatis into the wealth tax net. As India keeps producing more billionaires, thanks largely to a booming share market and a real estate market and as more and more Indians make it to the prestigious Forbes List, it is time to take a reality check on this tax. Let"s get some loud and clear facts about this tax, to start with.

Fact No. 1: The amount collected as wealth tax has remained at miserably low levels. As against the actual amount of wealth tax collected during 2005-06 was a paltry Rs 265 crores. The Budget for 2006-07 retained the same and for 2007-08 the budgetary estimate for wealth tax was fixed at Rs 325 Crores, representing a miniscule proportion of the total direct taxes collection estimate of Rs 2,67,400 Crores.

Fact No. 2: The wealth tax levy covers only certain specified 'unproductive assets" such as residential houses, farm houses, urban land, jewellery, motor car, air place, boats, yachts, bullion, etc. Effective from AY 1993-94, wealth tax has been abolished on the assets like shares, deposits, bonds, debentures, etc. Hence, for all practical purposes, wealth tax gets levied on very few assets.

Fact No. 3 : The rate of wealth tax that is levied has remained at an abysmally low at the 1% level (wealth tax is leviable on the net wealth over Rs 15 lakhs) since 1992 indicating the Government"s intention that it is not serious about this levy.

Fact No. 4 : The successive Governments ruling the country have consistently and continuously shown a liking for diluting the provisions related to wealth tax, over the decades. For instance, the corporate sector, which is the largest contributory to the Government in terms of taxes, was taken out of the wealth tax levy from AY 1960-61, thro" an amendment brought about by the Finance Act of 1960-61 and of course, this was revived in a limited way for closely-held companies for the AYs 1984-85 to 1992-93. From AY 1993-94, there is a very limited liability on companies on their non-productive assets.

Flat No 5 : Though exact figures related to the cost of the efforts put in by the Government in collecting the Rs 325 odd crores is not known, it is estimated that the Government should be spending close to 40% of amount collected, as its costs. This is a very high cost which does not justify the quantum of collection of wealth tax.

Of course, I cannot but wonder at how the Government manages to collect only around Rs 325 crores as wealth tax, which in my opinion, is rather low, even going by the current law, indicating the total lack of a law enforcing machinery vis-À-vis wealth tax.

Having said these, I cannot but look at one great related paradox in our tax system. The total wealth of India"s 35 odd billionaires was recently estimated at US$ 191 billion, more than the total wealth of around 800 million poor people. While talking of a growth rate of 9% and an increasing list of Indian billionaires, we cannot lose sight of the staring fact that about 400 million of our people do not earn enough to have two square meals a day and some 470 million people of our country cannot read and write. I cannot but agree with the Left that this represents a very wide and huge disparity which is not present in any other country including and notably, China and the collection of a reasonable amount of tax levied on the wealth of the country"s rich would be a social and ethical justification.

There are then perhaps two intelligent options that are open to the FM –

Option 1 : Increase the base of wealth tax to include all assesses including widely held corporates and levy wealth tax on the basis of their total assets shown in their latest audited balance sheets and on the basis of the returns filed in respect of non-corporate assesses. The FM can think of reducing the wealth tax rate to 0.5%, while increasing the exemption limit to, let"s say, Rs 30 lakhs. The FM should target a minimum of Rs 2500 crores from wealth tax, if it is to make any decent impact to the tax system. The amount collected can be used for specific programmes aimed at benefiting the rural poor. This would immensely please the Left, on whose support, the Government is dependent. It would also be a good political point for the Congress, which is yet to recover from the drubbing that it got from the BJP in Gujarat and HP.

Option 2 : Abolish wealth tax altogether. It really makes no sense to collect Rs 325 Crores and spend around Rs 100 odd crores in the process. At current levels, this levy is more of a nuisance value and makes absolutely no economic sense to a Government which needs to collect around Rs 270,000 crores as direct taxes. Of course, as we discussed earlier, discontinuance of this levy would incur the Left"s wrath. The FM, perhaps, needn"t be too concerned about the Left, which is already attributing the country"s current economic problems to his policies.

Will the highly intelligent Mr Chidambarm go into the history books as the FM who abolished wealth tax? In India"s tax history, very few FMs have had the guts to abolish certain tax streams and Mr V P Singh stands tall in this regard. His political successes and failures apart, Mr Singh is and will be remembered for his two very major contributions to the Indian tax system, viz. abolition of estate duty and the introduction of the Modvat Scheme.

Personally, I"d hate to remember Mr Chidambaram as one who implemented the Voluntary Disclosure Schemes and as the FM who expanded the service tax levy and levied service tax even on rentals.

I would have no issues in remembering him as one who abolished wealth tax.