CHAPTER FIVE

OTHER ASPECTS OF ESTATE DUTY

:: CHAPTER – V ::

OTHER ASPECTS OF ESTATE DUTY

5.1 INTRODUCTION :

In this chapter, we discuss some aspects of estate duty which we have not covered in the previous chapters. More particularly, we briefly review the centre-states relation in respect of estate duty and the changes therein during almost the period of 30 years. Similarly, we examine the effective average rate of estate duty as well as the marginal rate of estate duty.

5.2 CONSTITUTIONAL PROVISIONS :

Article 269 item (1) (B) of the Indian constitution includes estate duty on property other than agricultural land in the Central list. This tax is to be levied and collected by the central government as we have already pointed out in chapter No. II. After deducting the cost of collection and proceeds attributable to Union territories, the entire net proceeds are assinged to the states where this duty is levied. The distribution between different states of the entire net proceeds will be determined by a law of the Parliament. The principles of inter-state distribution of the revenue from estate duty have been formed by the recommendations of the Finance Commissions, excepting the first and the Fifth.

5.3 QUANTUM OF ESTATE DUTY TRANSFERS :

The Estate Duty was brought into operation from 15th Oct. 1953 for the first time. As a result, the total net proceeds of estate duty transferred to the states amounted to Rs. 2 crores only. In the second plan, this amount increased to Rs. 12 crores. In the subsequent five year plans, particularly during 3rd to 6th five year plans, broadly speaking, increasing amounts of estate duty revenue were transferred to the states. Table No. 5.1 gives this information.

TABLE NO. 5.1

TRANSFER OF ESTATE DUTY REVENUE

(Rs. crores)

Plan period	Maharashtra	Gujarat	Tamilnadu	Karnataka	W.Bengal	All States.
3rd Plan	2.33	1.22	2.70	1.43	1.94	21.82
4th Plan	2.47	1.04	1.11	1.25	1.91	16.63
4th Plan	4.63	2.43	3.84	2.34	3.37	39.46
5th Plan	4.93	3.30	5.08	3.49	4.98	58.97
6th Plan	14.28	9.33	5.95	3.05	14.93	79.47

Source : R.B.I. Bulletins.

From table No. 5.1 it is clear that, compared to previous plan periods, the quantum of net proceeds of revenue from estate duty transferred to states shows a significant increase during 6th five year plan period. This is applicable to all the states under present study. In case of Maharashtra and West Bengal, this increase is significantly larger. During the 6th plan period, Maharashtra, received Rs. 14.28 crores as estate duty revenue whereas it received only Rs. 2.33 crores during 3rd Plan Period. This increase is still larger in case of West Bengal. In case of All States model, the revenue transferred to All-States was Rs. 21.84 crores in the 3rd Plan which increased to Rs. 49.47 crores during the 6th Plan Period.

5.4 AVERAGE AND MARGINAL EFFECTIVE RATES OF ESTATE DUTY :

In this regard, we discuss only the national data as we could not get state wise data.

a) AVERAGE EFFECTIVE RATE OF ESTATE DUTY :

Table No. 5.2 gives information in respect of average effective rate of estate duty which is measured by the actual yield from estate duty expressed as a percentage ratio to total value assessed for estate duty.

TABLE NO.5.2

AVERAGE EFFECTIVE RATE OF ESTATE DUTY

(Percent)

Value Slab (Rs.)		Years		
		1961-62	1971- 72	1977-78
Upto 50000		0.0439	-	-
50000 -	100000	0.0097	0.0130	0.0112
100001 -	150000	0.0155	0.0282	0.0294
150001 -	200000	0.0327	0.0423	0.0478
200001 -	300000	0.0549	0.0594	0.0640
300001 -	500000	0.0762	0.0896	0.0899
500001 -	1000000	0.1183	0.1524	0.1630
1000001 -	2000000	0.1478	0.2418	0.2980
2000001 -	3000000	0.1869	0.2526	0.2980
3000001 -	5000000	0.2133	0.4185	0.5792
5000001 -	7500000	0.2820	0.2908	-
7500001 -	10000000	-	0.3287	-
1000001	and Above	0.2379	-	-

Source : Dr. G.Thimmaiah Perspectives on Tax Design and Tax Reform Ashih Pub.House, New Delhi, P. 227,228.

From the information given in table No. 5.2 it is seen that in all the three years under consideration, the average effective rate of estate duty shows a gradual increase as the slab of assessed estate value increases. This may be considered an indicator of some progressivity in the rate structure of estate duty actually achieved. However, it must be noted that at no time even in the case of highest estate value slab, the average effective rate of estate duty is more than 1%. The highest level reached is 0.5792% in the year 1977-78 for the slab Rs. 30 lakhs to Rs. 50 lakhs.

TABLE NO.5.3

MARGINAL EFFECTIVE RATES OF ESTATE DUTY (%)

Estate Value Slab (Rs.)	Years.		
	1961-62	1971-72	1977-78
Upto 50000	-	-	-
50000 - 100000	0.0084	-	-
100001- 150000	0.0197	- 0.1209	- 0.03000
150001- 200000	- 0.0074	- 0.0092	- 0.0347
200001- 300000	0.1289	0.4730	0.1141
300001- 500000	0.6301	- 0.1031	- 0.2015
500001- 1000000	- 0.0787	- 0.2480	- 0.1171
1000001-2000000	0.1075	0.0688	0.1372
2000001-3000000	- 0.6531	0.2395	0.2142
3000001-5000000	0.2619	1.0299	- 31.6567
5000001-7500000	0.1908	0.5361	-
7500001-1000000	-	0.3923	-
1000001 and above	-	-	-

Source : Same as for table No. 5.2

One can very easily argue that the marginal effective rate of estate duty should be steeply progressive. However, the data given in table No. 5.3 indicates that excepting the year 1971-72, for the estate value slab of Rs. 30 lakhs to Rs. 50 lakhs, no such progressivity is seen. On the contrary, there are certain slab increases where the effective marginal rate of estate duty has infact become negative indicating a certain degree of regressivity. This becomes particularly unpalatable when we realised that in theory estate duty is supposed to be a potential instrument of reduction in the inequality of distribution of wealth and property at least gradually in the long run.

5.5 DISTRIBUTION OF ESTATE DUTY ON PROPERTY OTHER THAN AGRICULTURAL LAND :

From the discussion and the empirical analysis made in the earlier chapter, it is very much evident that, the revenue from the estate duty has almost no significance for state finances. In fact, it would be more convinient to determine the minimum and maximum rates of this duty nationally leaving collection and full appropriation to the states. This can avoid quinquennial deliberations by the Finance Commissions to decide the principles of inter state distribution of net revenue from estate duty. Now that, the duty has been removed, this question is of course solved for good.

We however, intend to make a historical review regarding the principles of inter state distribution of net revenue from estate duty as determined by various Finance Commissions so far.

5.6 SECOND FINANCE COMMISSION :

The Second Finance Commission for the first time, was given the responsibility of determining these principles. The commission thought that estate duty being a tax on property, the location would be the appropriate principle of distribution. In case of movable property a more general principle of population was suggested.[1] Subsequent Finance Commissions accepted this view almost in toto.

5.7 THE FOURTH AND THE SIXTH FINANCE COMMISSIONS :

The Fourth Finance Commission (1965) and the Sixth Finance Commission (1973) considered the views of states regarding distribution of estate duty. A comparative study of the memoranda submitted by various state governments indicated following criteria of inter state distribution of estate duty.

1. Distribution on the basis wholly of population.
2. Distribution on the basis partly of population and partly of collection (weightages may be different).
3. Basis of population coupled with weightage to scheduled castes and tribes.

4. Continuation of the scheme suggested by the Second Finance Commission.
5. Location in case of revenue notionally attributable to immovable property and remaining on the basis of collection.
6. 75% on the basis of population and 25% on the basis of inverse proportion of per capita income only among those states which are below national average.
7. Purely on the basis of collection.

5.8 SEVENTH FINANCE COMMISSION :

The Seventh Finance Commission (1978) rejected the criterion of population totally and insisted only on the criterion of location of property.[2]

5.9 MAHARASHTRA'S VIEW POINT :

The Govt. of Maharashtra well from the beginning has accepted the Principle of location in case of immovable property and population in case of movable property.[3] However, in principle, the Govt. of Maharashtra has a specific approach to the problem. As per the opinion of Govt. of Maharashtra, the revenue from taxes under article No. 269(estate duty being one) should be distributed wholly on the basis of collection, because these taxes have been placed under the Central Government for uniformity and ease of collection and therefore each state should receive broadly the amount which it would have raised if it had the power to levy and collect them.[4] Similarly, in the memorandum submitted to the Sixth Finance Commission the Govt. of Maharashtra maintained "While location of the immovable property should be adopted as a basis of distribution of the proceeds notionally attributed to it, for distribution of the proceeds of the duty attributable to other property, as total collection in each state represents the nearest attributability that should be adopted as basis."[5]

5.10 THE EIGHTH FINANCE COMMISSION (1984)

The Eighth Finance Commission (1984)[6] endorsed the view of the Seventh Finance Commission regarding the inter state distributuon of estate duty revenue based on the location of property, both movable and immovable. Moreover, Govt. of Maharashtra in its membrandum submitted to the eighth Finance Commission accepted the existing principles, however, sticking to its basic point of view enumerated earlier.[7]

REFERENCES

1. Report of the Second Finance Commission, 1951 P. 51.

2. Report of the Seventh Finance Commission, 1978 P. 56.

3. Maharashtra Govt. Memorandum submitted to the Third Finance Commission 1961, P. 142.

4. Govt. of Maharashtra Memorandum submitted to the Fourth Finance Commission (1964) PP 21, 22 and Memorandum submitted to the Seventh Finance Commission (1977) P. 27.

5. Govt. of Maharashtra Memorandum submitted to the Sixth Finance Commission (1973) PP 12,13.

6. Report of the Eighth Finance Commission 1984 PP 60,61.

7. Ibid. PP 60-61.