

**CHAPTER I**

**INTRODUCTION AND RESEARCH DESIGN.**

## CHAPTER - I

### INTRODUCTION AND RESEARCH DESIGN

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#### 1.1 INTRODUCTION

**Taxation of Wealth** is advocated with a view to: (1) achieving horizontal equity in regard to the taxation of income, (2) reducing inequalities of income and wealth, (3) encouraging efficient use of investment funds, and (4) achieving efficiency in administering income-tax by crosschecking wealth owners for their income.<sup>1</sup>

Though income has been considered as a more tangible indicator of taxable capacity, it is realized that people who owned wealth without having income above the exemption limit go scotfree and as a result, the income tax creates horizontal inequity. Wealth for its owner means a continuous stream of its enjoyment, as distinct from that associated with income or consumption.

The Taxation Enquiry Commission of 1953-54 examined the feasibility of levying a wealth tax. The Commission praised this tax on economic, social and equity grounds and also thought that it would prevent tax evasion and tax avoidance.

Later on, in 1956, Prof. Nicholas Kaldor, in his Report on Indian Tax Reform submitted to the Government justified levying of tax on wealth as an essential part of the direct tax system in order to achieve horizontal equity.

While arguing for levying of an annual tax on wealth, Prof. Kaldor stated that:

*The arguments can be grouped under three heads, equity, economic effects and administrative efficiency.*

*(a) The main argument in equity for the tax is that income taken by itself is an inadequate yardstick of taxable capacity as between incomes from work and incomes from property, and also as between the different property owners. The basic reason for this is that the ownership of property in the form of disposable assets endows the property owner with a taxable capacity as such, quite apart from the money income which that property yields.*

*(b) From the point of view of economic effects, the great advantage of taxes assessed on property value as against taxes assessed on income is that a property tax does not discriminate against the risky employments of capital in the same way as an income-tax.*

*(c) From the point of view of administrative efficiency, it must be borne in mind that while property value is something distinct from annual profit or income, the two in fact, are closely related in the sense that profits and property incomes of all kinds (other than the profits associated with professional and vocational activities) have always some tangible assets behind them; and similarly, most forms of property, though not all, yield money income or profit of some kind. Hence, if taxes were assessed both on income and on property, by the same taxing authority, the administrative efficiency of the system is bound to be improved in consequence.<sup>2</sup>*

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A perusal of **Article 246** together with the three Lists in the Seventh Schedule to the **Constitution of India** makes it clear that Parliament has exclusive power to make laws with respect to all the matters enumerated in List I (Union List), Entry 86 of List I reads as under:

*86. Taxes on capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies."*<sup>3</sup>

Accordingly, the Wealth-tax Bill, 1957, was introduced in Lok Sabha on 15th May, 1957, and was referred to a Select Committee, which, in due course, submitted its report. The Bill was later adopted by Rajya Sabha. The President's assent to the Bill was accorded on 12th September, 1957, and was enacted as **the Wealth-tax Act, 1957.**<sup>4</sup>

As per the Statement of Objects and Reasons appearing at the beginning of the Wealth-tax Bill, it was anticipated that together with Income-tax, Estate-duty and a tax on Capital Gains, the Wealth-tax, the direct taxes will form a composite system made up of complementary elements, and that it would be consistent with the avowed goal of the attainment of socialistic pattern of society.

Nevertheless, the Legislature has provided for certain exemptions in respect of the investments made for specified purposes, which include contribution towards industrial development, economic advancement of the country, etc.

The present study attempts to critically study such exemptions provided under the Wealth-tax Act, 1957.

## **1.2 STATEMENT OF PROBLEM:**

The statement of the problem thus could be accurately made as: **"Exemptions under the Wealth-tax Act, 1957 - A Critical Study"**. The primary objective of the exemptions granted under the Act is to give an impetus to resource mobilization for planned economic development of the country. After three decades of the enactment of the Act, however, time has now come to assess the impact of these exemptions in relation to their avowed objective. The present study thus is an attempt to deal with the problem stated above.

## **1.3 SCOPE OF STUDY:**

All the exemptions allowable under the Wealth-tax Act, 1957, have been contained under Section 5 (Chapter II) of the Act. The present work attempts to critically study these provisions of exemptions and put forth suitable suggestions after drawing suitable conclusions.

## **1.4 OBJECTIVES OF THE STUDY:**

Following have been framed as the objectives of the study:

1. To conduct a critical examination of the exemptions under the Wealth-tax Act, 1957;

2. To conduct an analytical study of various exemptions under the Wealth-tax Act, 1957, and the legislative changes enacted from time to time;
3. To submit suitable suggestions for making these exemptions more effective in rationalizing the total scheme of exemptions.

#### 1.5 RESEARCH METHODOLOGY:

The study is based purely on the **secondary data**, comprising of the text of the bare Act together with amendments issued thereunder. It also relies on the case law as brought about by judicial decisions. In addition, relevant literature on taxation, fiscal and economic subjects has been referred to wherever necessary.

#### 1.6 LIMITATIONS OF THE STUDY:

1. The present research work limits itself to studying only the exemptions available under section 5 of the Wealth-tax Act, 1957, and does not critically review the other sections of the Act; thereby narrowing down the scope of the study;
2. The study attempts to analyse the exemptions available only under the Wealth-tax Act, 1957, and not under the remaining two direct taxes Acts, namely, the Income-tax Act, 1961, and the Gift-tax Act, 1958; although in order to arrive at comprehensive conclusions as regards the impact of the exemptions on the direct tax revenue, it

is necessary to minutely appraise the entire direct tax structure;

3. The prolific exemptions available under the Wealth-tax Act, 1957, encompass within their fold all the taxable entities; thereby making it impossible to critically evaluate each exemption within the constraints of the present Dissertation.

#### 1.7 CHAPTER SCHEME:

The Dissertation has been arranged into Four Chapters. **Chapter-I** deals with framework aspects as statement of problem, objectives, research methodology and limitations. **Chapter-II** deals with the statutory provisions relating to the exemptions as are available under the Wealth-tax Act, 1957. **Chapter-III** endeavours to analyse the exemptions as also offers a general evaluation of the Wealth-tax Act. **Chapter-IV** records the conclusions and suggestions drawn from the analysis and discussions. A comprehensive **Bibliography** appears at the end of the Dissertation.

#### REFERENCES

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