CHAPTER V

A CRITICAL EVALUATION, CONCLUSION AND SUGGESTIONS:

5.1 A CRITICAL EVALUATION OF WEALTH-TAX:

From the earlier discussions, it is pointed that in practice, the tax on wealth is highly burdensome for taxpayers who possess non-productive assets, but favourable to tax-evaders. Sometimes, taxpayers hold only non- productive assets which do not create any income for the owners, but they are chargeable to tax. On the other hand, some other tax payers hold only productive assets which create income to their owners but they are not chargeable to Wealth-tax. Therefore, wealth-tax is a not an equitable tax. Equity in taxation means that the tax burden should be imposed according to taxable capacity. The capacity-to-pay is compared between the owners of productive and non-productive assets. The capacity to pay Wealth-tax of the owner of a productive assets owner is much more; ironically, he is charged less tax.

Direct taxes, particularly the Wealth-tax are often regarded as expensive to collect since each and every taxpayer will have to be separately contacted by the tax authorities, thereby increasing the cost of collection. Among direct taxes, the cost of collection of income-tax and wealth-tax is higher than the cost of collection of the corporation tax. The cost of collection for wealth-tax for the year 1992-93 was Rs.24 crores for yielding a tax revenue of Rs.300 crores. For the year 1993-94, it was Rs 26 crores for yielding a tax revenue of Rs 200 crores. The percentage of cost of collection in 1992-93 was 5.88% and in 1993-94, it was 13% of the total yield from wealth-tax. It is clear that revenue of the Union Government through this tax will be reduced due to the amendments made in respect of rates of wealth-tax and increase in the taxable wealth limit. The progressivity or equity attributes of the wealth-tax are also a myth. In our country, administration of wealth-tax has led to more tax evasion than tax compliance. This is evidenced by the fact that Government in recent times brought out four Voluntary Disclosure Schemes.

Another criticism is that wealth-tax discourages productive enterprise. This criticism, however, is unfounded because from the assessment year 1992-93, wealth-tax on productive assets held by taxpayers has been abolished. The exemption was granted to taxpayers for stimulating more investment in productive assets. But in case of non-productive assets held by companies, due to the charging of non-yielding assets, companies will have greater scope for shifting the burden of tax on the consumers, through raising of prices. When price of products increase, the purchasing power of general public correspondingly decreases. Simultaneously, workers are induced to ask for higher wages. Therefore, it is advisable to abolish wealth-tax on companies altogether. Furthermore, Wealth-tax is difficult to administer. Those who are entrusted with the task of administering it, have first to find out who has wealth and then evaluate it. The valuation of immovable property, i.e., buildings and urban land, and verification of claims regarding liabilities have proved to be a complex problem. The procedure for valuation of building has five steps which are completely unknown to the taxpayers. In respect of other assets, the taxpayers try to evade the tax by holding these in bonds, shares, securities, etc. Again, tax authorities either over or underestimate the value of wealth and this offers scope for corruption. Wealth-tax is often avoided by a person by dividing his wealth among his relatives. In India, it is revealed that people hold their wealth in the names of animals, fictitious persons, deities, etc., to avoid wealth-tax.

Property taxes which are charged under Union Government are not popular among taxpayers; especially in the rural area, who know that they are paying a particular part of their income as tax, and they are sensitive to the money burden of the tax. Hence they resist it. People in rural areas are completely unaware of direct taxes, particularly the wealth-tax. Unpopularity of wealth-tax is one more reason for non-increase in the revenue of the Government from this tax.

Wealth-tax as well as other direct taxes create a number of difficulties for taxpayers, who have to file returns every year, indicating their wealth, property, income etc. Several certificates are required to be attached with the return. Most of the taxpayers do not understand the exact process of submitting and filing returns. So they have to take the help of professionals like Chartered Accountants or Tax Consultants.

The Finance Act, 1992, opened new vistas of taxation by exempting the assets which are productive. The value of any asset, other than cash, shall be determined in the manner laid down in Schedule III. However, Part A of Schedule III has not defined the term 'immovable property' nor the specific term such as 'land', 'building' etc. Part B of the Schedules relate to the valuation of immovable property. Yet, the whole Schedule has not given an iota of the principle applicable in 'Vacant Site Valuation'. Vacant Site Valuation is a prominent litigation issue in wealth-tax assessment.

The Direct Tax Laws, in particular Wealth-tax Act, 1957, have been subjected to frequent changes in the past. Wealth-tax Law in India is very complicated making it extremely difficult not only for the taxpayer but also for the tax administrators who collect the tax. It is ironical to note that the Wealth-tax Act, has been amended more than five hundred times. So far, every time the Government has promised simplification and rationalisation of Tax Laws.

> "Today, the Wealth-tax Act, 1957, is a National disgrace. There is no other instance in property-tax in India's jurisprudence of an Act. Mutilated by more than 1000 amendments in barely 35 years. But every amendment of this Laws has added to more confusion, thereby resulting in opening up opportunities for tax evaders piling black money"

An important malady of our Direct Tax System is that of tax evasion and black money; that need to be tackled without losing time. Tax evasion and black money undermine equity concept of taxation. In India, not only black money is running parallel economy, but it is growing faster than the National Income. Therefore control of black money and tax evasion are the need of the hour.

The Government, on the other hand, just tinkers with Direct Tax Laws. Bringing in some cosmetic changes here and there, instead of attempting seriously and boldly structural reforms of taxation all these years. The result is that every one has now become sceptic about the intention of the Government for bringing simplicity and rationalisation in tax laws.

The main promise of the Government had been to bring simplicity and stability in fiscal laws. But this promise is frustrated because through amendments from time to time to the Income-Tax Act and Wealth-tax Act, these have become more complex, more elaborate and more uncertain than these had ever been before.

5.2 CONCLUSION.

From the foregoing discussion, it can be observed that:-

1. There is no stable wealth-tax structure and there are frequent amendments to the tax laws.

2. The exemptions and deductions have been very often changed from year to year.

3. The collections from the wealth-tax are very negligible and the tax fails to provide sufficient revenue-raising avenue.

4. Wealth-tax was introduced with a view to provide integrated direct tax structure under the recommendation of Prof.Nicholas Kaldor. This object of integration is not fully achieved because there is massive tax evasion.

5.3 SUGGESTIONS.

Based on the above observations the following suggestions are made:

1. Separate levy of tax on wealth for mobilisation of revenues is a frustrated objective. The tax on wealth has not satisfied the canons of taxation.

Recently the exemption limit was increased upto Rs.15 lakhs and flat rate introduced. There is now need to review the priority of continuation of this tax. For this purpose, it is suggested that a High Power Committee be appointed to examine the fact whether the tax on wealth should be abolished or whether it should be continued with further changes.

2. Without prejudice to the above, it is suggested that the overall property taxation in India, including tax on wealth, needs a detailed examination.

3. The tax on wealth was introduced to strengthen the tax structure. But this has not happened. Further, because of inflation, price rise adds to the market value of the assets. The valuation under wealth-tax is a very complicated process. There is need for simplifying the same.

4. The term 'asset' has been recently revised and as a result, majority of the assets are free from wealth-tax. This has weakened the entire wealth-tax collection. It is suggested that there should be some rational and logical interpretation attached to the term "assets"

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