Chapter 8

Other Taxes

Wealth Tax

8.1 The levy of wealth tax is justified on the ground that it is a measure of taxable capacity and enables top marginal income tax rates to be reduced without sacrificing overall tax progressivity. A wealth tax also serves as a source of information to other tax administrations. Further, a separate wealth tax can help ensure that taxes evaded on income might be collected. However, if wealth tax has to serve the purpose of efficiency and equity, it is necessary to minimise the cost of administration and the compliance cost. Given the problems associated with the administration of the wealth tax and cross-country experience, "net wealth tax, although attractive in principle, must be judged impractical in most developing countries"[80].

8.2 Under the existing scheme a tax at the rate of one percent is levied if the aggregate value of the selected assets exceeds Rs. 15 lakhs. The selected assets are mostly unproductive assets in the nature of jewellery, vacant urban land and certain categories of house property. Since, the levy is based on current market value of the asset, these are often subject matter of immense dispute. Both the administrative and compliance cost is disproportionate to the revenues realised. **(Table: 8.1).** While at current prices, the revenues have almost stagnated at the measly level of approximately Rs 135 crores, in real terms there has been a sharp decline. While no official estimates of the cost of administering the wealth tax were available, it was widely accepted in the official circles that the cost would not be less than Rs 50 crores. Given the large-scale disputes on valuation an equal amount (if not more) could be reasonably estimated towards compliance cost.

[80] Richard Goode, Government Finance in Developing Countries (1984)

Table 8.1: Trend of Wealth Tax Revenues

Financial Year	Collections (in Rs. crores)	Financial Year	Collections (in Rs. crores)
1988-89	122	1995-96	74
1989-90	179	1996-97	78
1990-91	231	1997-98	113
1991-92	307	1998-99	162
1992-93	468	1999-00	133
1993-94	154	2000-01	132
1994-95	105	2001-02	135

Source: Government of India, Receipts Budget (of different years)

8.3 Further, one of the objectives of this levy was to help verify income earned between the two valuation dates. This objective could have been served if the valuation of the assets was based on historical costs and the scope of the levy was comprehensive. In fact, wealth tax assessments have thrown up large scale disputes at all levels particularly on the issue of valuation.

8.4 In view of the smallness of revenue from wealth tax and the large-scale problems of administration and compliance, the tax can hardly be said to have increased progressivity. The ends of progressivity would be better served if the income tax law is simplified to encourage voluntary compliance and income tax evasion is prevented. **Accordingly, we recommend the abolition of wealth tax.**

Expenditure Tax

8.5 Expenditure tax was introduced in 1987 on the plea that "those who can afford to patronize high class hotels should also be afforded the further pleasure of contributing to the national exchequer." [81] To begin with, the tax was levied at 10 percent on expenditure in hotels where the room tariff was Rs.400 per individual. At present, it continues to be levied at 10 percent but on expenditure in hotels where the room tariff is Rs. 3000/- or more. In addition, most states also continue to levy a luxury tax on hotels.

8.6 **The present tax on expenditure in hotels is in the nature of a consumption tax. It was introduced as a separate tax in the absence of a tax on services. Since tax on services has since been introduced, it is only appropriate that this levy is merged with service tax. We recommend accordingly**.

[81] Paragragh 73 of the Union Budget Speech for the year 1987-88.