Right Message, Wrong Fix

Oxfam report's call for wealth tax ignores realities of economic system

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ONE OF the significant setbacks of the Covid-19 pandemic is the gaping divide in the recovery of incomes between the top income groups and those at the bottom. The Oxfam 'Survival of the Richest' report corroborates this. There are now 166 billionaires in India, up from 106 in 2020, it notes. It is estimated that the wealth is concentrated among the top deciles, with the top 30 per cent accounting for 90 per cent of the wealth. This compares with the global number, where the richest 1 per cent are estimated to have captured almost two-thirds of new wealth. While the reported numbers can stir the reasonable to argue for an equalising wealth tax — a recommendation that the UN has long deliberated — to an expert, the report does little more than scrape the surface.

The Oxfam report argues for a wealth tax, a tax on unrealised capital gains and higher taxes on corporates. It also argues that indirect taxes are regressive. The pursuit of such reforms requires a nuanced understanding of the existing taxes — tax on incomes, capital gains and wealth are interrelated and the changes cannot be recommended in isolation. If the income tax is significantly high and capital gains are implemented, the wealth tax would have to be calibrated accordingly. Further, the mix of taxes that a country raises is a function of its institutional capacity, structure of tax base and desire for simplification. The report skirts these issues.

In the Indian context, the report raises two important points — the lower corporate tax rate in lieu of incentives and the introduction of GST — which are seen by the report as costly tax policy experiments. The validity of such claims needs to be examined. The corporate tax cuts brought the statutory tax rate down from 30 per cent to 25.17 per cent. The statement of revenue foregone pegs the "cost" of this measure at Rs 1.03 lakh crore. However, it is common sense that this is not the equivalent of revenue that would have been realised had there been no incentive. The jury is out on the investment impact of the measure but where such a tax cut would have positively impacted investments, the same revenue would not have been realised in its absence. Further, the comparison of corporate tax collections is unfair as the simplified regime for corporate taxes was introduced after 2019. Even in FY2021, tax collections clocked record growth and were above pre-pandemic levels. The other criticism in the paper is of the GST and its disproportionate impact on the lowest deciles. The paper uses NSS 2011-12 to establish that the bottom 50 per cent pays six times more indirect tax as a percentage of income as compared to the top 10 per cent.

> In the past, countries, including India, have used a wealth tax but the collections were a pittance, making it a costly tax to implement. The gains that India is expected to make from the implementation of the wealth tax would lead to a tax gain of 10 per cent of current direct tax collections. One wonders this cannot be pursued through a gradual increase in overall tax collection, instead of relying on a tax that hinges on volatile asset prices.

The current income tax system exempts incomes up to Rs 5 lakh from tax and the GST rate structure places a higher burden on luxuries. In fact, the upward trend in the GST collections post 2021, despite the K-shaped recovery, accompanied by higher retail sales of luxury goods, indicates that the tax may be progressive. Further, an indirect tax can be more efficient in a system where direct tax compliance is not broad-based.

In light of the results presented in the report, it is also important to inquire into the computations. While it is estimated that the total wealth held by India's richest is a staggering Rs 54.12 lakh crore, how many of the assets counted are a part of private wealth or are held in the form of trusts or companies? Merely adding this to wealth does not make it taxable. The legal title may forbid the authorities from levying such a tax, which is why the global report argues for a registry of assets. There are however limitations to establishing the title even when using the latter to establish ownership.

Although the report carries the right message about rising inequalities and the need for tax reform, it misplaces this in generalisations. A siloed approach to tax policy, with interlinkages between different taxes that apply to the same base, is not meaningful. In the past, countries, including India, have used a wealth tax but the collections were a pittance, making it a costly tax to implement. Not everything is fixed by taxes — the role of other macroeconomic policies, like low interest rates and regulatory interventions, should not be ignored.

The gains that India is expected to make from the implementation of the wealth tax would lead to a tax gain of 10 per cent of current direct tax collections. One wonders if this cannot be pursued through a gradual increase in overall tax collection, instead of relying on a tax that hinges precariously on volatile asset prices.

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