

Income and wealth concentration in India today is very high by international and historical standards. One of the factors that is attributable to concentration of wealth is that inherited wealth and invested capital (in the stock market, in real estate) grows faster than income. Taxing this inherited wealth with an inheritance tax, complemented by political strategies can address the problem of extreme inequality.

The Indian economy has had one of the highest growth rates in the world for a fairly long period; but that growth hides several disturbing long-term trends.¹ One of the alarming trends, is growing inequality which is aggravated in the recent years. However, it should be noted that, in India, due to the absence of income data, income inequality cannot be measured and compared periodically. If measured as wealth inequality, which is accumulated income, Gini⁴ coefficient becomes much higher compared to the Gini coefficient based on consumption² data. In several occasional studies and reports, very high incidence of income inequality in India has been highlighted; few of these are cited here. A detailed income distribution estimates³ for India reveals high income inequality, with a Gini coefficient of 0.54, more than Brazil (based on survey estimates of gross income). Another estimate based on village surveys⁵ derive an even higher Gini coefficient of around 0.60 or more. More recently, the successive rounds of India Human Development Survey (IHDS) data shows that **income inequality in India has increased from 0.53 in 2004-05 to 0.55 in 2011-12.**⁶ If compared with the latest Gini coefficients of BRICS countries, viz., Brazil (0.50), Russia (0.41), and China (0.46), India appears to be more unequal.⁷

However, irrespective of differences across various estimates, it would be plausible to conclude that **inequality in India is high and it is increasing rapidly** (see Chart 1). Further, it is well documented that the share of wealth of top 1 percent is soaring.⁸ Chart 1 shows that during the period from 2002-03 to 2016, the wealth share of top 1 percent of population in India has increased from 15.7 percent to as high as 58.4 percent. The top decile of the population, in 2016, holds 80.7 percent of the total wealth in India, which has increased from 52.9 percent in 2002-03. While the wealth share of the top strata is increasing, share of bottom strata is shrinking proportionately out of the total wealth pie.

It is now increasingly being acknowledged that inequality is bad because it hurts economic growth⁹ and leads to social and political instability and civil conflict¹⁰, which further harms the economy. It could also jeopardise the democratic set up of a country. It was warned by Dr. B. R. Ambedkar in 1949 that “we can’t be building a democratic edifice on the principle of political equality, while social and economic inequalities continue to widen”.¹¹

RECOMMENDATIONS



INDIA MUST REINTRODUCE INHERITANCE TAX TO TACKLE THE CONCENTRATION OF WEALTH.

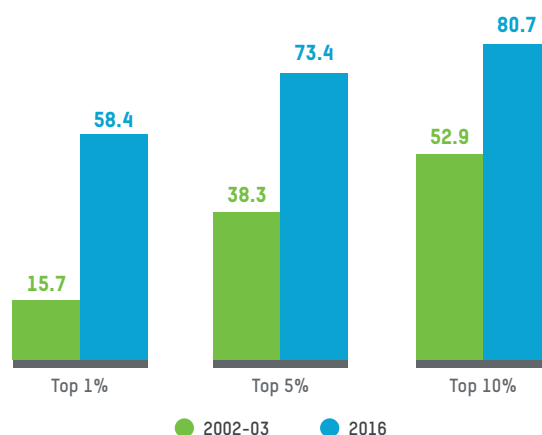


DRAWING UPON GLOBAL EVIDENCE, INDIA COULD SET A MODERATE INHERITANCE TAX RATE ANYWHERE BETWEEN 30 TO 40 PERCENT WITH A HIGHER THRESHOLD LIMIT; BUT WITH THE LEAST NUMBER OF EXEMPTIONS.

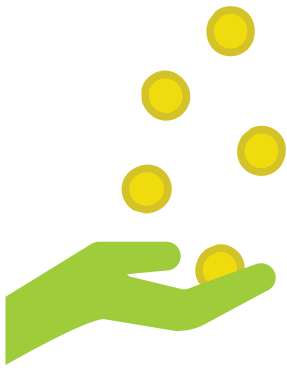


TO BRING TRANSPARENCY IN THE TAX SYSTEM, FOR EVALUATING AND PROPER POLICY MAKING, INCOME TAX STATISTICS MUST BE PUT IN THE PUBLIC DOMAIN, THE PRACTICE THAT WAS DISCONTINUED SINCE 2000.

CHART 1: TRENDS IN WEALTH SHARE (%) OF DIFFERENT PERCENTILES OF POPULATION DURING 2002-03 TO 2016 IN INDIA



Source: Data Compiled from the Global Wealth Databook 2010 & 2016, Credit Suisse



INHERITANCE TAX IS COMMONLY KNOWN AS ESTATE TAX/DUTY IN INDIA. THE PHILOSOPHY BEHIND INHERITANCE TAXES IS THAT WEALTH SHOULD BE CREATED AND EARNED, RATHER THAN INHERITED. IT IS A FACT THAT ONCE A FORTUNE IS ACCUMULATED OR ACQUIRED, IT DEVELOPS A MOMENTUM OF ITS OWN. THE SUPER-RICH HAVE THE MONEY TO SPEND ON MULTIPLE INVESTMENT OPTIONS TO SECURE ANNUAL RETURNS FAR HIGHER THAN ORDINARY SAVERS AND IT LEADS TO GROWING CONCENTRATION OF WEALTH.

In the absence of inheritance or wealth tax, as the famous economist Thomas Piketty observes, the phenomenon of increasing concentration of wealth is very likely manifested in India. In the context of growing social inequity and injustice, inheritance tax could be an option to curb it as well as to generate additional resources.¹²

As per the 2016 Forbes list, worldwide 1810 dollar billionaires¹³ own \$trillion 6.5 which is equivalent to the wealth of bottom 70 percent of humanity.

An Oxfam study found that whilst some billionaires owe their fortunes exclusively to hard work and talent, **one third of the world's billionaire wealth is inherited and while 43 percent is the result of crony connections with government.**¹⁴ For developing countries alone, 71 percent of extreme wealth is derived from either state-dependent industries or inheritance — that is \$trillion 1.65 held by 470 individuals in 38 developing countries. State-dependent industries that offer opportunities of rent-seeking — like mining, telecoms and utilities— account for a whopping 56 percent of billionaire wealth in these countries,¹⁵ that is, the rest 15 percent of wealth is inherited. Global financial services company UBS has projected that over the next 20 years, 500 people will hand over \$trillion 2.1 to their heirs.¹⁶

India is also experiencing similar type of growing concentration of inherited wealth. In India, where direct tax revenue is low, for augmenting it, inheritance tax is yet to be explored properly. **A conservative estimate shows that the revenue potential of inheritance tax and wealth tax in India is around 0.8 percent of GDP for 2011-12.**¹⁷ Inheritance tax was removed in 1985 in India. Prior to its removal, the collection

of inheritance tax was 0.4 percent of total direct tax revenue. All other things being equal, presently, India could have collected around INR 30 billion only from inheritance tax; In 2015-16, India's total collection of direct tax revenue was Rs. 7419.5 Billion.¹⁸

In between 2000 and 2013, India's private wealth has reportedly increased drastically from \$trillion 1.5 to \$trillion 3.6, that is, an increase by 300 percent. **As per the Global Wealth Databook 2016¹⁹ published by the Credit Suisse, top 10 percent of India's population possess 80.7 percent of the total wealth.** As per the 2012 Forbes list, the number of billionaires in India increased from only two in the mid-1990s to 46 in 2012; wealth of these constituted 10 percent of India's GDP in 2012. The number of billionaires increased to 111 in 2016.²⁰

Wealth held by billionaires in India arise from three major sources - inheritance, self-made, and 'inherited and growing'.

While a sizeable number of billionaires (21) are 'self-made', as revealed by a recent study done by Gandhi and Walton (2012)²¹, about 40 percent of total billionaire wealth is in the 'inherited and growing' category. Further, the study also found that all of these billionaires are associated with corporate activities and notable wealth creation occurred in sectors with substantial potential for rent extraction and rent sharing between private and government players. It is also noteworthy that income inequality is underestimated due to hidden wealth, owned mostly by the richest segment of the population. In his 2013-14 budget speech, the then Union Finance Minister P. Chidambaram, had quoted that out of the 3.7 crore income tax assesses in India,

only 42,800 people's declared income was more than INR 1 crore a year. It is definitely a gross underestimation. Further, this official estimates of income, due to unavailability of information, also fail to capture the assets held by some people in offshore 'tax havens' (e.g. Mauritius, Cyprus, Cayman Islands etc.).

Given the extreme concentration of wealth that India is experiencing, it is imperative to take some immediate measures, and one of the measures could be reintroducing "Inheritance Tax." It should be noted that at present, there is no inheritance tax²² (estate duty) payable in India.

Estate Duty was payable, in India, under the Estate Duty Act, 1953; this was paid on property passed on to the legal heirs on death of a person. When estate duties existed, estates valued at over INR 20 lakh, attracted a high duty of 85 (maximum slab rate) percent.²³ Prior to removal, in the financial year 1984-85, it garnered INR 200 million (which was 0.4 percent of the total direct tax collection in that year).²⁴ In March 1985, inheritance tax was abolished on the ground that it led to procedural harassment of large number of tax payers with negligible gain in terms of revenue.²⁵ No heed was paid to the argument that inheritance wealth was the principle source of concentration of wealth in any society.²⁶ If the tax was ineffective and any administrative bottlenecks existed, corrective measures should have been taken instead of abolishing it.

It is also very often argued that inheritance tax send the wrong signal to investors. This, however, is a blunt argument because a modest, well-designed inheritance tax is not going to deter investors.²⁷ It is evident globally, that in order to attract investors, various other reforms in an economy must be carried out, instead of focusing on tax alone.

COMPARISON OF INHERITANCE TAX ACROSS COUNTRIES

Prior to its removal, inheritance tax in India was extremely high at 85 percent. For setting a reasonable tax rate, it would be worthwhile to have a quick glimpse over the presence of inheritance tax across countries. It is evident (see Chart 2) that Japan has the highest inheritance tax rate (55%) among the OECD countries followed by South Korea (50%), France (45%), United Kingdom (40%), United States (40%) and so on. Few OECD countries, like Austria, Australia, Canada, Norway, Portugal, Sweden etc., do not have any inheritance tax.

Among the BRICS countries, despite having extreme inequalities, Russia and India have no inheritance tax. Brazil, China and South Africa have some taxes which are similar to inheritance taxes (see Box 1). Thus, inheritance tax exists in many countries and rates vary within a wide range across countries. The tax rates are set by the individual countries as per their policy strategies.

Given India's growing inequality, low tax-GDP ratio, and dependence on indirect taxes, reintroducing inheritance tax could be a good policy move. It would address the issue of inequality and, simultaneously, additional resources generated through this tax could be invested in improving essential services like health and education for better human development.

BOX 1: INHERITANCE TAXES IN BRAZIL, CHINA AND SOUTH AFRICA

BRAZIL



State tax on causa mortis wealth transfer and donation (ITCMD): Inheritance rights should be exempted from income taxation in the country of residence. However, state tax on causa mortis (a deathbed gift) wealth transfer (ITCMD) should be enforceable to surviving family members residing in Brazil or to the donee (the state law that regulates the ITCMD taxation may also indicate the donor as jointly responsible to pay the ITCMD in case the donee fails to pay the tax due). The ITCMD is a state tax levied on transfers of goods on death-related inventories or donations (in case of living individuals), which is payable on movable and immovable property (e.g., real estate or cash lump sums). Nevertheless, it is important to note that the maximum applicable rate is currently capped at 8 percent; however, an increase in the rate is expected up to 20 percent.

CHINA



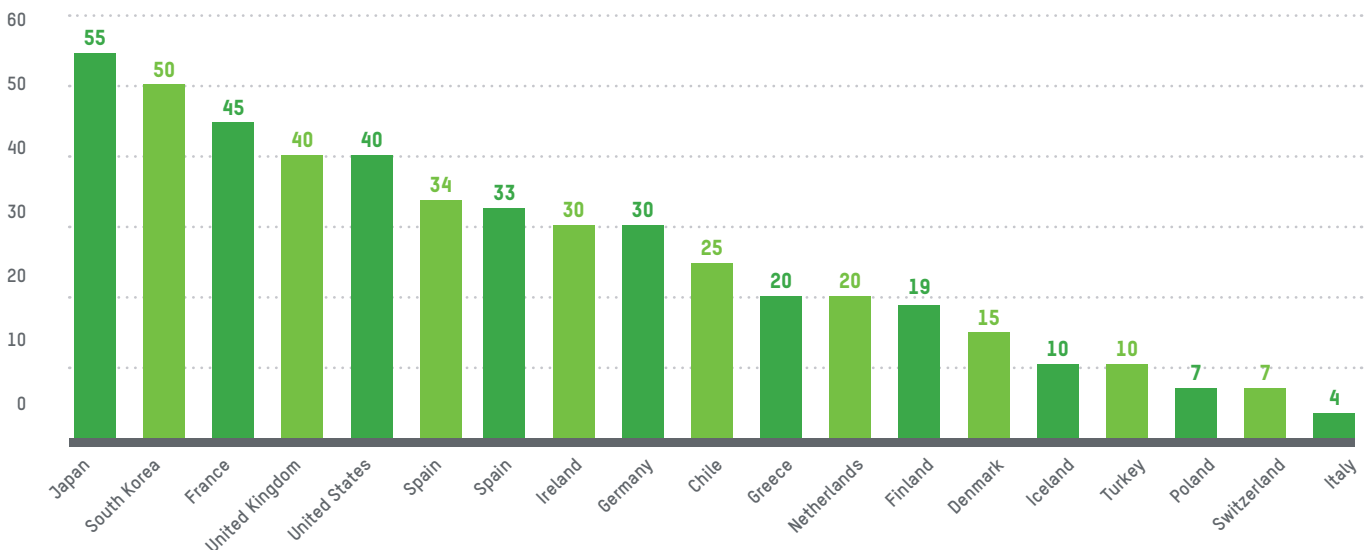
From an estate and succession perspective, no real estate transfer tax is levied in China. However, an individual's transfer of real estate or land-use rights in China may be subject to individual income tax (IIT), business tax, deed tax, stamp duty and land appreciation tax.

SOUTH AFRICA



South Africa has an estate duty applicable on the death of an individual. This is provided for in the Estate Duty Act No. 45 of 1955. The estate duty applies to the net value (i.e., assets less liabilities) of an individual's estate when he or she dies. The value of assets disposed of during the course of winding up the estate is the value to be used, and assets transferred to heirs are priced at market value on the date of death. The statute contains rules relating to deemed property and deemed valuations with respect to certain transactions.

CHART 2: ESTATE/INHERITANCE TAX RATE (%) LINEAL HEIRS IN OECD COUNTRIES IN 2015



Source: Family Business Coalition and Tax Foundation, 2015²⁸

It is a fact that India's tax-GDP ratio is very low compared to many developed and even several developing countries. For increasing tax-GDP ratio, it is not always necessary to increase tax rates. Instead, widening tax base could always be a viable option. **Reintroducing inheritance tax will serve the twin purpose of widening and augmenting revenue collection and reduce intergenerational persistence of inequality.** It would also help to enhance the progressivity in Indian tax system by increasing the share of direct taxes.

In 2012, the issue of inheritance tax gained prominence as there were news reports that the Indian Government was thinking of reintroducing this levy; but no formal proposal was tabled before the Parliament. Soon after assuming office in 2014, Jayant Sinha, the Minister of State for Finance, said he favoured bringing back the inheritance tax in some form. However, his proposal did not find favour with finance minister Arun Jaitley and others in the government. Although several economists and experts, namely, Raghuram Rajan, Vijay Kelkar, Ajay Shah, Pratap Bhanu Mehta, among others, advocated for such a tax, the issue was never fully debated. In fact, the prevailing inequality presents a strong case to bring back inheritance tax or estate duty; the purpose of inheritance taxes was never only revenue mobilisation, it was also to limit the concentration of wealth in the hands of a few as is enshrined in the Constitution of India.

However, tax rates, whether on income or estate, should never be penal or extortionate.²⁹ We would strongly advocate for a moderate inheritance tax rate. In India, prior to removal, maximum slab rate of inheritance tax was an exorbitant 85 percent. **On the basis of the global evidence, India could set an inheritance tax rate between 30 to 40 percent.** It should be noted here that an eminent expert in this field, Prof. Arun Kumar suggested that **given the disparity in India, which is greater than in USA, the Estate Duty should be at least 60 percent.**³⁰

When inheritance tax was in place, assets below a threshold limit of INR 0.1 million³¹ were exempted while determining the taxable value of the estate. In case of co-parceners³² inheriting a Hindu Undivided Family's (HUF) property, this threshold was lowered to INR 50,000.³³ That threshold limit is archaic in the context of India's present socio-economic situation and there must be an upward revision of the overall threshold limit. Whatever threshold limit is decided, whether INR 30 million or 50 million,

the number of exemptions should be limited to avoid procedural bottlenecks. Eminent expert, Vijay Kelkar advocates INR 500 million as the threshold limit, whereas few others feel that INR 200 million would be good starting point.³⁴

To get an idea about the global practice of the threshold limit of inheritance tax, it would be worthwhile to note here that in the United Kingdom, under the old rules, properties valued at GBP 325,000 or less were exempt from inheritance tax. Anything above this figure was taxed at 40 percent. From 6 April, 2017 individuals will be able to claim an additional GBP 100,000 residence nil rate band (RNRB) to offset the sale of a family home after a death.³⁵ So, effectively, the threshold limit at present is GBP 425,000 in UK, which is equivalent to INR 35.4 million at the exchange rate of INR 83.4 per GBP.

In India, the practice of keeping benami³⁶ property is rampant; and the main sources of such unequal patterns of wealth accumulation are **land and building.**³⁷ It would, therefore, be apt for the government to usher in two laws simultaneously — a meaningful law to tackle the benami menace, and an inheritance law duly sanitised in terms of taming its avaricious outreach.³⁸

It is also widely acknowledged that in any kind of governance issue, 'transparency' is a crucial factor for any kind of assessment and policy prescriptions. So, detailed data on tax is needed in the public domain to limit the concentration of wealth, fight corruption, and assess the efficacy of India's tax policy choices. India used to publish income tax statistics but discontinued in 2000 after publishing for decades.³⁹ It would be noteworthy that global forums like G20 and BRICS also have placed the issue like financial transparency on the top of their agenda.

Above all, inheritance tax must not be considered only as an important source of revenue. This tax is most unpredictable in nature as the collection of revenue depends on death of a wealthy person and the subsequent transfer of wealth to his heirs. So, flow of revenue from this tax may fluctuate every year. **Therefore, inheritance tax is best looked upon as a corrective measure for the malaise of the huge disparity in distribution of income and wealth rather than only as a source of revenue for the exchequer.**⁴⁰

NOTES

¹ Chakraborty, M (2017), India's ten per cent capitalism, in six charts. Available on: <http://www.livemint.com/Opinion/WhP2P2N3ty5cDPYqkqgP70/Indias-ten-per-cent-capitalism-in-six-charts.html> (accessed on 11th July 2017)

² In the absence of reliable income data, the Gini calculations use consumption data from the National Sample Survey Organisation (NSSO). Officially, the Gini coefficient, based on the consumption data from the NSSO, India's inequality was 0.30 in 1983, 0.35 in 2005 and 0.36 in 2012. The consumption proxy understates the true income inequality in India. If measured as wealth inequality, which is accumulated income, Gini will be much worse. Source: Ranade, Ajit (2017), Piketty and income tax in India, Livemint, 3rd February 2017, Available on <http://www.livemint.com/Opinion/Gi2llbocuF32Ch939gBagN/Piketty-and-income-tax-in-India.html> (accessed on 11th July 2017).

³ Reproduced from Ghosh, J. (2016), Inequality in India: drivers and consequences, World Social Science Report, Challenging Inequalities: Pathways to A Just World, 2016, UNESCO.

⁴ The Gini coefficient (Gini ratio/ Gini index) is a measure of statistical dispersion intended to represent the income or wealth distribution of a nation's residents, and is the most commonly used measure of inequality. The value of Gini coefficient ranges from 0 to 1. Typically, Gini coefficients of income in the range of 0.30 to 0.35 are considered to be present in egalitarian societies and values exceeding 0.4 are considered inegalitarian. Source: Addressing Inequality in South Asia. The World Bank, 2015.

⁵ Rawal and Swaminathan, (2011), Income inequality and caste in village India. Review of Agrarian Studies, Vol. 1, No. 2. Available on: http://ras.org.in/income_

[inequality_and_caste_in_village_india](#) (Accessed on 13th July 2017).

⁶ Himanshu & Rinku Murgai, Inequality in India: Dimensions and Trends, Available on <https://www.wider.unu.edu/sites/default/files/Events/PDF/Slides/Himanshu-Murgai-Inequality-in-India.pdf> (accessed on 24th July 2017).

⁷ These are the latest estimates of income inequality for BRICS countries, taken from the BRICS Joint Statistical Publication 2016. Data for China, Russia are of the year 2015; for Brazil and South Africa data are of 2014 and 2011 respectively.

⁸ Rapid increase in the wealth of top 1% population in India is documented in the Global Wealth Databook, Credit Suisse 2010 & 2016.

- ⁹ Cingano, Federico (2014), Trends in Income Inequality and its Impact on Economic Growth, OECD, France, 09 December 2014. Available on: <http://dx.doi.org/10.1787/5jxjrjncwvx6j-en> (last accessed on 1st August 2017).
- ¹⁰ When do inequalities cause conflict? Available on: <http://www.thebrokeronline.eu/Articles/When-do-inequalities-cause-conflict>
- ¹¹ Ranade, Ajit (2017), Piketty and income tax in India, Livemint, 3rd February 2017, Available on <http://www.livemint.com/Opinion/Gi2libocuF32Ch939gBagN/Piketty-and-income-tax-in-India.html> (accessed on 11th July 2017).
- ¹² Thomas Piketty in his book 'Capital in the Twenty-First Century' (2014) has argued, income from capital and inherited wealth have been powerful drivers of inequality in the advanced capitalist countries, up to the First World War as well in the period since the 1970s. He pointed out that up to the early 20th century, income from capital and not earnings, predominated at the top of the income distribution. Minimal taxation on wealth at that time ensured that wealthy individuals could easily reinvest a substantial part of their income. Consequently, their wealth and their incomes grew at a faster rate than the economy, thus reinforcing their economic dominance. On the death of these wealthy individuals, their wealth passed on to their heirs. As a result, inherited wealth was concentrated in the hands of a very small minority.
- ¹³ Dollar Billionaire: A person who's net wealth is at least 1 Billion Dollar
- ¹⁴ An Economy for the 99%, Oxfam Briefing Paper, January 2017. Available on: https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-economy-for-99-percent-160117-en.pdf
- ¹⁵ <http://policy-practice.oxfam.org.uk/blog/2015/12/extreme-wealth-is-not-merited>
- ¹⁶ UBS. (2016, September) Are Billionaires Feeling the Pressure? Available on: <https://uhnw-greatwealth.ubs.com/media/8616/billionaires-report-2016.pdf>
- ¹⁷ Kundu, Protiva (2014), Major Dimensions of Inequalities in India: Taxation, CBGA, 2014
- ¹⁸ 1 Crore is 10 million. Direct Tax revenue data is taken from Budget At a Glance, Union Budget 2017-18.
- ¹⁹ Global Wealth Databook 2016, <http://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=AD6F2B43-B17B-345E-E20A1A254A3E24A5>
- ²⁰ Hurun Global Rich List 2016
- ²¹ A. Gandhi and M. Walton (2012) "Where do India's Billionaires get their Wealth?", EPW, Vol. - XLVII, No. 40, October 6, pp.1-14.
- ²² Inheritance Tax and Estate Duty has been used interchangeably.
- ²³ Budget 2017: 3 new taxes that Modi government could introduce, but won't; Available on: <http://economictimes.indiatimes.com/news/economy/policy/budget-2017-3-new-taxes-that-modi-government-could-introduce-but-wont/articleshow/56885195.cms> (accessed on 26th July 2017).
- ²⁴ *ibid*
- ²⁵ Wealth Transfer Tax: Caricature of estate Duty, EPW, March 26, 1988; page no. 612.
- ²⁶ *ibid*
- ²⁷ Mehta, Pratap Bhanu (2017), Death and taxes; Available on: <http://indianexpress.com/article/opinion/columns/death-and-taxes/> (accessed on 26th July 2017).
- ²⁸ Cole, Alan (2015) Estate & Inheritance Taxes around the World, March 2015, Available on https://taxfoundation.org/estate-and-inheritance-taxes-around-world#_ftn1 (accessed on 11th July 2017)
- ²⁹ In the United States, both the federal government and most states impose some form of inheritance tax in keeping with the national spirit that one must earn one's wealth rather than receive it on a platter on the death of one's parents. Many US states charge an inheritance tax as high as 50%, which, with the federal tax, comes perilously close to the maximum slab rate of 85% in India when the tax was applicable. In fact, one of the big reasons US corporate founders, such as Warren Buffet and Bill Gates, partake in philanthropic activities on such a large scale is the grim prospect of the state eating into their estate after their death.
- ³⁰ Nayar & Sharma (2011) Whip the Cream, Outlook, <https://www.outlookindia.com/magazine/story/whip-the-cream/271247> (accessed on 13th August 2017)
- ³¹ 1 lakh is 0.1 million. The tax was payable only by legal heirs other than the spouse. If a person inherited property on the death of a spouse, no tax had to be paid.
- ³² Co-parceners: A person who shares equally with others in the inheritance of an undivided estate or in the rights to it.
- ³³ http://www.business-standard.com/article/pf/pitfalls-of-inheritance-tax-double-taxation-112111100015_1.html (accessed on 12th August 2017).
- ³⁴ Nayar & Sharma (2011) Whip the Cream, Outlook, <https://www.outlookindia.com/magazine/story/whip-the-cream/271247> (accessed on 13th August 2017)
- ³⁵ <http://www.express.co.uk/finance/personalfinance/788640/inheritance-tax-threshold-new-rules-changes-avoid-fees> (accessed on 12th August 2017).
- ³⁶ Benami: Benami essentially means property without a name. In this kind of transaction the person who pays for the property does not buy it under his/her own name. The person on whose name the property has been purchased is called the 'benamdar' and the property so purchased is called the 'benami property'. The person who finances the deal is the real owner. The property is held for the benefit - direct or indirect - of the person paying the amount.
- ³⁷ Anand, I. S. A. Thampi (2016) Recent Trends in Wealth Inequality in India, EPW, Vol. LI NO. 50, December 10, 2016.
- ³⁸ Muralidharan, S (2016) Case for Reintroducing Inheritance Tax; The Wire, 15th February 2016. Available on: <https://thewire.in/21645/the-case-for-reintroducing-inheritance-tax/> (accessed on 11th July 2017)
- ³⁹ Mehra, Puja (2016) Tax elite to reduce inequality; Thomas Piketty, The Hindu, 23rd September 2016.
- ⁴⁰ *ibid*

AUTHOR: SAKTI GOLDER

INPUTS: NISHA AGRAWAL, DIYA DUTTA AND RANU KAYASTHA BHOGAL

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Oxfam India | 4th and 5th Floor, Shriram Bharatiya Kala Kendra, 1, Copernicus Marg, New Delhi 110001

Tel: +91 (0) 11 46538000 | Web: www.oxfamindia.org

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