



INSIGHTSIAS
SIMPLIFYING IAS EXAM PREPARATION

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INSIGHTS INTO EDITORIAL



Editorial

ANALYSIS

EDITORIAL ANALYSIS

AN INHERITANCE TAX WILL HELP REDUCE INEQUALITY

[Source: The Hindu](#)

- **Prelims:** Current events of national importance (Inheritance Tax, Labour Force Survey data, wealth tax, **Land value tax** etc)
- **Mains GS Paper II & III:** Functions and responsibilities of the union and the states, issues and challenges pertaining to the federal structure etc

ARTICLE HIGHLIGHTS

- **The World Inequality database** found that in **2022-23**, **22.6%** of the **national income** went to the top **1%**, the highest ever since **1922**.
 - **Wealth inequality** is even more stark with the **top 1%** population having **40.1% share in wealth**.
- **Chairman of Indian Overseas Congress** has backed the party's stand on redistribution of **wealth** and advocated an **inheritance tax law** in the country.

INSIGHTS ON THE ISSUE

Context

Inheritance tax:

- It is a tax paid for **inheriting a property or asset** from a deceased person.
- It is levied on the **value of the inheritance received** by the beneficiary, and it is **paid by the beneficiary**.
- Depending on the country, it can be as high as 55%.
- A person can receive inheritance either **under a Will** or under the **personal law** of the deceased.
- **In India**, the concept of levying tax on inheritance **does not exist** now.
- It involves assessing the value of all assets

owned by the deceased, including **real estate, investments**, bank accounts, vehicles, and personal belongings, while also considering any outstanding debts or liabilities.

Why does inequality matter?

- **Inequality harms growth in the medium-to-long run**, by hampering firm productivity, reducing labor income, and diverting resources away from rights such as education.
- **In unequal countries, the place of birth** holds inordinate power in directing lifetime outcomes.
 - **In India, almost a third of the variation in consumption** can be explained by the place of residence: the State, and city or village.
- **High inequality is associated with political polarization** and increased conflict.
- **Inequality is likely to have a negative multiplier effect** on the economy.
 - **Diminished earnings for the poor** lead to reduced consumption and savings and increased indebtedness.
- **It reduces aggregate demand, limits production** and investments, and leads to lower growth rates in the future.

Data on inequality:

- **Using labor bureau data:** Real wages of agricultural laborers grew by **6.8% between 2004-2014**, they declined by **1.3%** in the last decade.
- **Periodic Labour Force Survey data (Bahutva Karnataka report):** It shows that **34% of households** earned less than the recommended daily minimum wage of **₹375 in 2022-23**.
- **Reserve Bank of India data:** The sharp reduction in household savings and increased debt.
 - In contrast to these, the richest **1% holds 40% of India's wealth**.

Wealth tax and Inheritance tax:

- A **wealth tax is a recurring tax** on all physical and financial assets an individual owns.
- An **inheritance tax differs from a wealth tax**:
 - It is intergenerational and levied once in a lifetime.
- **These taxes are meant to be applied** to individuals having high wealth above a threshold.
- **These taxes reduce the concentration of wealth** and encourage shifting investments from non-productive to productive activities.
- **Property of the elite being bequeathed to descendants** implies that the descendants do no work to acquire it.
- **Revenue generated from inheritance tax** can be used to fund a diversified set of innovations.
 - **Japan** has up to **55% inheritance tax**.
- A **variant of the inheritance tax, called estates duty**: It was levied in India between **1953-1985**(abolished owing to administrative costs).
 - **Economist Rishabh Kumar**: shows that this was effective in reducing the **top 1% personal wealth share** from **16% to 6% between 1966 and 1985**.

Land value tax (LVT):

- It taxes the **rental value of land**, without considering the property built on it.
- It is borne by the **landowner** and not the tenants.
- LVT can be a useful **redistributive mechanism**.
 - **Given the role of land ownership** in perpetuating feudal caste relations in rural India and the pervasive politician-builder nexus in urban India.

Way Forward

- **Recent research by Natasha Sarin(U.S.) projects** that sufficient investment in improving tax compliance can yield revenue up to **10 times the investment**.
- **Nathaniel Hendren and co-authors show** that auditing the **top 1% and 0.1%** generated **three to six times** the return on investment.
- **Economists Jayati Ghosh and Prabhat Patnaik** demonstrate that a **2% wealth tax** and a **33.3% inheritance tax** only on the **top 1%** in India can raise an additional public expenditure of **10% of the GDP**.
 - **It can be used to ensure a bouquet of socioeconomic rights** for the poor like living wages, right to health, employment, and food.

QUESTION FOR PRACTICE

Q. How far do you think cooperation, competition and confrontation have shaped the nature of federation in India ? Cite some recent examples to validate your answer.(UPSC 2020)

(200 WORDS, 10 MARKS)