



JUMP CUT

Big Fish Need A Bigger Net!

The highest marginal rate of tax in India is 30 per cent: lowest in the world. The very rich should pay more.

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We live in a welfare state. There must then be a debate about how best the State can provide its citizens their essential services—which are ensured by the directive principles in the Constitution—and how it should be financed through taxation. It is an accepted principle of taxation that it should be broad-based, equitable and progressive. There must be a link between an individual's income and tax obligation: those with higher incomes must pay a higher percentage of it.

Our tax system isn't progressive enough. With the growth of the economy, the number of high income individuals has been increasing. But their newly increased income is out of the tax net since the highest marginal rate of tax is only 30 per cent. This is perhaps the lowest in the world. There is scope for at least two higher rates: 40 per cent for incomes above Rs 50 lakh a year and 50 per cent for earnings over a crore. The fact that richer people should pay more tax may not be pleasant, but it's in the national interest. It's even necessary, both on equity and revenue grounds.

Another tax we must introduce is an inheritance tax, or estate duty. Success is personal; it is something to be savoured, not bequeathed. A crorepati's children have every right to make their own way in the world and not stay under his/her shadow. This is done by levying a tax (say, 35-40 per cent) on the wealth left behind when one dies, so that a good part of that wealth returns to society—usually in three generations unless the successors also earn in their own right. We're a land of maharajas; having abolished privy purses, we must take the next logical step: put in an estate duty.

Some apprehensions have to be addressed. These aren't taxes on the middle class. They should apply to high net-worth individuals (HNIS)—the very rich. Who are HNIS? Surely not those with an income of Rs 1 crore? What about Rs 100 crore? Can we build in an element of progression in this tax? Let's debate these issues. A consensus should emerge from such debate. This is an interesting and challenging time for the finance minister. Will he show the greatness the country expects of him?

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