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THE SLOW EXTINCTION OF WEALTH TAX: HOW FAR IS IT JUSTIFIED

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THE SLOW EXTINCTION OF WEALTH TAX: HOW FAR IS IT JUSTIFIED

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[***Abstract:*** *Wealth tax has remained a contentious issue throughout the world over the past few decades. In the mid to latter half of the twentieth century, numerous countries around the world came out with their own versions of wealth tax. However, with time the practice has slowly decreased with more and more countries abolishing the system, and now barely a hand few countries still have this tax system. The main reasons cited by these countries are high administrative costs, low tax revenue, etc. However, a deeper understanding of the design and application of these tax systems shows that there was a flaw in the basic idea behind imposing wealth tax. This article aims to delve into this understanding to show how countries aiming to impose wealth tax, with extremely complicated designs, in the backdrop of political bargaining and in the form of revenue maximisation are bound to fail. This is because such countries fail to realise the true aim of wealth tax from both economic and political perspectives. This article also reviews India's attempt at wealth tax and critiques the same as also being motivated by revenue maximisation, which led to its failure. Instead, it suggests a new simple form of wealth tax which, when implemented, would be in line with the economic and political aspirations behind wealth tax.*]

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I

INTRODUCTION

Wealth tax has been a contentious issue around the world for over a century. Different states have had different iterations of this tax system, with some taxing only property, some taxing inheritance, some taxing wealth transfers, etc. But the common thread tying all these systems is that the tax was being levied not on the income generated by the capital or the labour put into the capital but the value of the capital itself. In this way, in the broadest sense, wealth includes all forms of assets derived from sources such as earnings, inheritances, gifts, returns to wealth, etc. This is not just limited to property, gold, and stocks, but depending on the tax design can also include intellectual property, cryptocurrency, etc. All these different types of wealth, in a way, represent consumption in the future, which can be by either the owner of the wealth themselves or those who benefit from their predecessor.[1]

The entire population in the country tend to have different wealth holdings because the amount which people receive from different sources of wealth is different and the manner in which the given wealth grows also depends on the capabilities of the person holding the same.[2] Moreover, wealth distribution is also varied across age groups. While some people may work through their lives and accumulate the most wealth at their retirement age, there may be others who, without having worked a day, have large amounts of wealth at very young ages due to inheritances of gifts.[3] There may also be others who invested their savings in avenues which have doubled or tripled in value while others which have diminished. Thus, wealth for any person is a factor of multiple variables, like abilities, luck, needs, preferences, opportunities, etc.[4]

Taxing different sources of wealth only covers certain individual variables; for example, wealth transfer tax and inheritance tax cover only abilities and luck, respectively. But opting for a more general wealth tax covering any form of wealth emerging from any source would be the most efficient and would also have a much larger base. This has resulted in numerous countries around the world opting for general wealth tax systems particularly after the two world wars, particularly aimed at those individuals who made fortunes out of the two

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[1] Stuart Adam & Helen Miller, *The Economic Arguments for And Against a Wealth Tax*, 42 FISCAL STUDIES 457 (2021)

[2] *Id*.

[3] Stuart Adam, & Helen Miller, *The Economics of a Wealth Tax*, WEALTH TAX COMMISSION Evidence Paper No. 3.

[4] Rebecca S. Rudnick & Richard K. Gordon, *Taxation of Wealth*, 1 IMF (1996).

wars.[5]

However, various issues cropped up in the operation of these wealth taxes over the last century which has led to numerous countries scrapping their entire wealth tax systems. While some have replaced them with other forms of taxes (like the surcharge system), others have taken no additional step, which has resulted in great adverse impacts, not only on the state but also the society as a whole. This paper aims to study the experience of different jurisdictions which have abolished wealth tax and evaluate whether the reasons cited by them are sufficient enough for overriding the entire system of wealth taxation.

To that effect, this paper is divided into three parts. *Firstly*, this paper traces the history of wealth taxation around the world, covering both the countries which have abolished wealth tax and those which still are continuing with the same, along with their reasons for doing the same. *Secondly*, this paper evaluates the reasons given by the countries for abolishing wealth tax by contrasting them against the economic and political ideas behind the idea of wealth taxation. Additionally, this section also seeks to identify the real reasons for the failure of these wealth tax systems. *Thirdly*, this paper takes the case study of India to demonstrate the ineffectiveness of the Indian alternative to wealth tax and show the importance of the wealth tax in the twenty-first century.

II

HISTORY OF WEALTH TAX AROUND THE WORLD

As mentioned in the previous section, numerous countries around the world have had systems of wealth taxation in their overall taxation mechanism. However, in the past few years, various countries have abolished their iterations by specifying various reasons which remained common among many. India, for example, had the Wealth Tax Act 1957, which calculated the tax at 0.25% (later on amended to be 1.0%) of the total wealth exceeding Rs.50 lakh.[6] This act was later abolished by the government in 2016, citing low revenue and high administrative costs. These two reasons have been the main contention of various countries around the world for abolishing their wealth

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[5] Martin Chick, *Does history suggest that wealth taxes help to improve the public finances?*, ECONOMICS OBSERVATORY (Dec. 11, 2020) *available at*– https://www.economicsobservatory.com/does-history-suggest-wealth-taxes-help-improve-public finances#:~:text=In%20the%20Second%20World%20War,%2C%202020%3B%20Keynes%2C%201940 (last visited Aug. 01, 2022).

[6] *What is Wealth Tax in India?*, CANARA HSBC LIFE, *available at* – https://www.canarahsbclife.com/tax-university/articles/what-is-wealth-tax-in-india.html (last visited Aug. 01, 2022).

taxes.[7]

Additionally, among the countries in the Organisation for Economic Co-operation and Development ("OECD"), there were more than twelve countries which had a wealth tax system in the 1990s, but now it only exists in three countries.[8] In addition to the above two reasons, these countries have justified their abolition of wealth tax by saying that this form of a tax is essentially double taxation, in the sense that it taxes not only the income which people earn but also the wealth and capital which people buy using the same post-tax income.[9] They have also cited capital flight to also be a reason, with rich citizens parking their wealth and capital in tax haven countries like Switzerland.[10] The difficulties of implementation of wealth tax have also been used to justify its abolition.

Not only do assets have to be valued as per the required value (neither the market value nor the historical value can be used as the former is usually inflated and the latter is outdated), but it also imposes a large responsibility on the state to check and verify every claim of exemptions from wealth tax, because most of these countries (including India) had a long list of exemptions due to various political reasons.[11] These countries have also cited that increased wealth tax will also discourage capital formation, leading to low economic development.[12] Lastly, many of these wealth tax systems taxed illiquid capital, holding low-income individuals as well, who did not have immense amounts of wealth and capital. This is claimed to have resulted in great regressive treatment of the citizens, which forced numerous OECD countries to abolish wealth tax.[13]

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[7] Amritesh Malhan, *Can India go back to a wealth tax by appealing to the better side of the rich?*, THE ECONOMIC TIMES (Jan. 22, 2022) *available at* – https://economictimes.indiatimes.com/news/economy/policy/can-india-go-back-to-a-wealth-tax-by-appealing-to-the-better-side-of-the-rich/articleshow/89056174.cms?from=mdr (last visited Aug. 01, 2022).

[8] Greg Rosalsky, *If a Wealth Tax is Such a Good Idea, Why Did Europe Kill Theirs?*, NPR (Feb. 26, 2019) *available at* – https://www.npr.org/sections/money/2019/02/26/698057356/if-a-wealth-tax-is-such-a-good-idea-why-did-europe-kill-theirs (last visited Aug. 01, 2022).

[9] Prachi Juneja, *Why Wealth Tax has been Abolished All Over the World?*, MANAGEMENT STUDY GUIDE, *available at* – https://www.managementstudyguide.com/why-wealth-tax-has-been-abolished-all-over-the-world.htm (last visited Aug. 01, 2022).

[10] OECD, OECD TAX POLICY STUDIES, THE ROLE AND DESIGN OF NET WEALTH TAXES IN THE OECD (2018).

[11] *Id*.

[12] Kristoffer Berg & Shafik Hebous, *Does a Wealth Tax Improve Equality of Opportunity?*, Evidence from Norway (IMF Working Paper) WP/21/85.

[13] Sarah Perret, *Why did some earlier wealth taxes fail and could this time be different?*,

III

IDEA BEHIND WEALTH TAXATION

Critiquing the Reasons for Abolition

This section will primarily be evaluating whether the reasons given by the countries mentioned in the previous section are valid and sufficient for justifying the removal of wealth taxation. In most cases, all the aforementioned issues which were faced by countries were a result of the poorly designed tax system rather than the concept of wealth tax itself. In most cases (particularly India and Netherlands), the wealth tax design was such that there were numerous loopholes and inconsistencies in the system.[14] There were various exemptions created for tax on different asset classes, which resulted in people trying to claim all the exemptions to avoid paying wealth tax.

This, in turn, resulted in higher work for the state in verifying these claims of exemptions and taking action against the false claims. This poor tax design which was filled with extensive work for the state and numerous loopholes for individuals to avoid paying the tax resulted in administrative costs being high and revenue being low. It was not the concept of wealth tax itself which was flawed, but the manner in which it was being imposed. In addition to the tax design, countries in Europe were also engaged in tax competition, wherein the states went about setting low wealth tax rates in an effort to draw foreign investment in their countries.[15]

And moreover, due to the freedom of movement within the European Union, coupled with their designs which linked wealth tax to the residence of people and not their citizenship, individuals could leave countries having wealth tax and reside in those without any (like the case of actor Gérard Depardieu leaving France for Belgium to avoid its then wealth tax).[16] The low threshold

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ECONOMICS OBSERVATORY (Dec. 14, 2020) *available at* – https://www.economicsobservatory.com/why-did-some-earlier-wealth-taxes-fail-and-could-time-be-different (last visited Aug. 01, 2022).

[14] Chris Edwards, *Why Europe Axed Its Wealth Taxes*, CATO (Mar. 27, 2019) *available at* – https://www.cato.org/commentary/why-europe-axed-its-wealth-taxes (last visited Aug. 01, 2022).

[15] Joseph Zeballos-Roig, Here's why Europe has mostly ditched wealth taxes over the last 25 years - even as Elizabeth Warren and Bernie Sanders seek them for the US, BUSINESS INSIDER (Nov. 17, 2019) *available at* – https://www.businessinsider.in/politics/news/heres-why-europe-has-mostly-ditched-wealth-taxes-over-the-last-25-years-even-as-elizabeth-warren-and-bernie-sanders-seek-them-for-the-us/articleshow/72098023.cms (last visited Aug. 01, 2022).

[16] Eleanor Beardsley, *Gerard Depardieu's Tax Flight Stirs Fierce Debate in France*, NPR

for paying wealth tax further contributed to the dissatisfaction people had with the system. All these implications resulted in countries attaching a sense of failure and futility to the concept of wealth tax itself.

They did not realise that every single one of the problems with wealth tax was due to poor policy decisions, which resulted in a poor design of implementing a much-needed system of wealth distribution. Moreover, the reasons given by various states, particularly the high administration costs, low revenue and difficulty in implementation, is just a façade to abolish a system which, if implemented properly, would dig into the immensely large purse of the top 0.01% who hold almost 11% of the world's wealth.[17] In the following sub-section, this paper analyses the economic and political justifications for imposing wealth tax to show how the reasons cited by countries for abolishing wealth tax do not override or even comprehend the need and importance of such a tax.

Economic Justification

The economic justification for wealth tax can be found in the works of John Maynard Keynes and Thomas Piketty. This justification can be located in the understanding of the theory of the "Paradox of Poverty in the Midst of Plenty".[18] This demand-side economic theory states that savings and subsequent investment into wealth are harming the economy. When people save and invest in wealth (like real estate, gold, paintings, etc.), there will be lesser money for them to consume, leading to a lack of demand.[19] If there is no demand in the market, then the supply will also tank because demand stimulates supply. As a result of this, there will be lesser investment into production, a reduction in employment, lesser income is generated, and society (consisting mainly of the working class) will become poorer.[20]

(Dec. 27, 2012) *available at* – https://www.npr.org/2012/12/27/168143152/gerard-depardieus-tax-flight-stirs-fierce-debate-in-france (last visited Aug. 01, 2022).

[17] Ronny Reyes, *The new gilded age: Top 0.01% of wealthiest individuals now hold 11% of the world's wealth - up more than $400bn from 10% in 2020 - while 100 million fell in to extreme poverty*, DAILY MAIL (Dec. 07, 2021) *available at* – https://www.dailymail.co.uk/news/article-10284667/Top-0-01-wealthy-individuals-hold-11-worlds-wealth-10-2020.html (last visited Aug. 02, 2022).

[18] James Ahiakpor, *A Paradox of Thrift or Keynes's Misrepresentation of Saving in the Classical Theory of Growth?*, 62 SOUTH. ECON. J. 16 (1995).

[19] *Id.*

[20] James Ahiakpor, *Why Economists Need to Speak the Language of the Marketplace*, FEE (Dec. 01, 1995) *available at*–https://fee.org/articles/why-economists-need-to-speak-the-language-of-themarketplace/#:~:text=Through%20this%20reasoning%2C%20Keynes%20believes,a

The rich will still have this money (which they would have otherwise invested into production) and will use it to buy more wealth, but this will not set up industries and create employment. This creates a negative feedback loop whereby due to this investment into wealth, there will again be lesser demand and then lesser supply and so on. When this is seen in the backdrop of Piketty's work, the rate of return on the capital/wealth will be greater than the rate of economic growth ($r > g$), which just makes the rich grow even richer and their wealth grow manifold while depriving the remaining majority of the society of economic growth, thus, in stabilising the economy.[21]

This shows how the hoarding of capital causes a vicious cycle which goes on to destroy the economic growth of a country. One effective way of countering this phenomenon would be to impose a wealth tax on all forms of wealth and capital, with no exceptions. This tax should have high thresholds to target those living in the top 1% or even the top 0.1%, giving only incentives to invest in those capitals, which lead to more production and employment than a prescribed limit. This form of incentive would also address the concerns that critiques of wealth tax have with respect to underinvestment and capital formation.[22] Thus, capital investment and wealth growth in all forms are not being targeted in such a regime.

It will only be those forms of wealth which do not generate the required limit of production and employment that will be taxed. In this way, a portion of the capital that the rich are hoarding in non-productive wealth would have to be paid off as taxes to the state in a non-compromising way. Furthermore, parties will also be forced to either make use of their assets and wealth in productive activities to generate more wealth and income (in order to pay off the wealth taxes) or they will be forced to sell their assets to others who may be in a better position to use the same asset or wealth to generate the required wealth and income to sustain the paying of wealth tax. There will be no dead assets remaining in the hands of the rich. This achieves two goals.

First, the wealth inequality between the top 1% or 0.1% and the remaining will reduce, counteracting Keynes' "Paradox of Poverty in the Midst of Plenty" principle because people will be less incentivised to save out of the fear of paying more wealth taxes, and would instead spend their money or invest it in employment and production generating capital. Second, the state also receives a substantial sum of money (depending on the tax rates, which should tend to be on the higher side). It can then use this money to finance public spending to increase employment, production and economic growth.

s%20if%20it%20were%20valid (last visited Aug. 02, 2022).

[21] Thomas Piketty, CAPITAL IN THE 21ST CENTURY (2017).

[22] *Supra* Note 12, Berg & Hebous.

Political Justification

The political justification for wealth tax can be seen from two perspectives. First, there is the perspective of legal coding, as propounded by Katherina Pistor. Capital and wealth have always been legal constructs.[23] For a person to own wealth, in the form of land or gold, the person required legal institutions and frameworks of the state which gave him the rights over these properties and at the same time protected these rights from being violated by others.[24] In the current day and age, where the definition of capital has gone far beyond land and gold, the state's intervention in the forms of laws which protect modern variations of wealth and capital like intellectual property rights, financial instruments, banking systems, etc., has greatly increased.

So, individuals are able to hoard their wealth only because the state and the law have allowed them to do so.[25] While individual or ancestry hard work, skills, sacrifice and luck may be factors in the formation of wealth, without legal coding (in the form of contract law, collateral law, banking law, IP rights, inheritance law, etc.), retaining this wealth over long periods would be impossible. Therefore, every form of wealth is a product of the law. And this has also resulted in the immense wealth inequalities which prevail in society.[26] The state is the one which has enabled this to happen, and it is the state only that can interfere to ensure there is a redistribution of wealth.[27]

To this effect, imposing wealth tax by the state to correct certain distributive concerns that have arisen due to capital accumulation by a certain minority section of the society (which has also been possible only due to the state and the law) would be most effective and reasonable. Second, there is the Rawlsian difference principle. According to this principle, social and economic differences are not being eradicated. It can be accepted because inequalities always exist in a society. But these inequalities/differences are only allowed to the extent that the upper and lower ends of the inequality spectrum should be open and accessible to all.

Additionally, the inequalities and differences should work in such a way that they improve and enhance the conditions of the poor and the least well-off.[28]

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[23] Katherina Pistor, THE CODE OF CAPITAL: HOW THE LAW CREATES WEALTH AND INEQUALITY (2019).

[24] *Id*.

[25] *Katharina Pistor Cracks the Legal Code of Wealth and Inequality*, COLUMBIA LAW (Jun. 10, 2019) *available at*– https://www.law.columbia.edu/news/archive/katharina-pistor-cracks-legal-code-wealth-and-inequality (last visited Aug. 02, 2022).

[26] *Id*.

[27] *Id*.

[28] Jennifer Bird-Pollan, *Unseating Privilege: Rawls, Equality of Opportunity, and Wealth*

This is what calls for the imposition of wealth tax. As per this principle, wealth tax is not aiming to take away the wealth of the rich to bring them down but rather is to benefit the least well-off persons in the society through the taxes collected from the wealthiest while still enabling the existence of these wealth inequalities. This combines both aspects of raising revenue for the government and acting as a tool for ensuring equality.[29]

Revenue Should Not Be the Only Justification

After venturing into the economic and political justifications for wealth tax, it should also be noted that high revenue should not be the only justification for imposing wealth tax. This reason has been cited by almost every country which has abolished wealth tax and is also being used to advocate for the Ultra Millionaire Tax Act (UMTA) in the US.[30] Not only did Elizabeth Warren and Bernie Sanders justify their wealth tax proposals by claiming that it would produce high revenue for the state, but even academic institutions which have analysed the same have also critiqued them by saying that the estimated revenue that will be generated through this tax is not as much as being claimed.[31]

Economic history has repeatedly shown evidence wherein the introduction of wealth taxes aimed solely at generating revenue has always been fraught with disappointment.[32] The political will has to be strong enough to go ahead with a wealth tax, irrespective of the expense of imposing and enforcing the tax. This tax should be looked at from a different perspective, one aimed at maximising social welfare, with a certain set of constraints of incentives, to record how different kinds of people respond to the tax. It should be looked at as a tool for achieving public policy goals.[33] Further, the expense involved in administering wealth tax, which is aimed at maximising social welfare, should not be seen as a cost but rather as a cost-saver for the state.

Achieving the different aims, as stated in the previous sub-sections, through multiple different institutionalised frameworks would not only result in more

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Transfer Taxation, 59 WAYNE LAW REV. 713 (2013).

[29] *Id*.

[30] Liz Prehn, *The Ultra-Millionaire Tax and What It Means for Wealthy Taxpayers*, MOSKOWITZLLP (Jun. 08, 2021) *available at* – https://moskowitzllp.com/ultra-millionaire-tax-and-what-it-means-for-taxpayers/ (last visited Aug. 02, 2022).

[31] Jon Huntley & John Ricco, *Budgetary and Economic Effects of Senator Elizabeth Warren's Wealth Tax Legislation*, BUDGET MODEL (Mar. 18, 2021) *available at*– https://budgetmodel.wharton.upenn.edu/issues/2021/3/15/budgetary-effects-of-senator-warren-wealth-tax (last visited Aug. 02, 2022).

[32] *Supra* Note 5, Chick.

[33] *Supra* Note 1, Adam & Miller.

administrative and compliance costs as well as further chances of evasion but also complicate the already complex regulatory system. Therefore, instead of multiple laws and policies aiming at reducing the wealth disparity, ensuring equality, generating revenue, etc., having one effective and well-designed wealth tax system would be the most efficient recourse for the state.

IV

INDIA'S ALTERNATIVE TO WEALTH TAXATION

As previously mentioned, India also had its own version of wealth tax, which existed in the form of the Wealth Tax Act, of 1957, which imposed a fixed wealth tax on individuals with wealth whose value exceeded a certain threshold amount. This was however abolished in 2016 with the government citing the reasons as the tax being too difficult and costly to administer with very low revenue.[34] All the factors mentioned above were not considered by the state while employing this decision. This decision was never sufficient to override the different economic and political ideas behind wealth taxation.

Moreover, as a replacement for wealth tax, the Indian government brought out the surcharge system, which imposed a further tax on the income tax of an individual when this income tax exceeded a certain threshold.[35] Essentially, this is a tax-on-tax system. However, one issue that the Indian state failed to address is that income is not the same as wealth. The income which a person gets on a year-on-year basis may be entirely different from their wealth. There may be individuals like Jeff Bezos, who has a net worth of over $100 billion dollars while their annual income is less than $100,000,[36] or there may be employed individuals who may have thousands or even hundreds of thousands of dollars in income, but with little to no wealth to their name.[37]

Taxing both these individuals similarly is blatantly unfair and unequal because the rate of growth of wealth and capital is much higher than any increment in income which a person may get. The legislature and the public have failed to understand this nuanced distinction which explains the repulsion towards

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[34] *Supra* Note 7.

[35] *Income Tax Surcharge Rate & Marginal Relief – Latest Rates*, CLEAR TAX (Jun. 03, 2022) *available at* – https://cleartax.in/s/marginal-relief-surcharge (last visited Aug. 02, 2022).

[36] Sarah Hansen, *Richest Americans—Including Bezos, Musk and Buffett—Paid Federal Income Taxes Equalling Just 3.4% Of $401 Billion In New Wealth, Bombshell Report Shows*, FORBES (Jun. 08, 2021) *available at*– https://www.forbes.com/sites/sarahhansen/2021/06/08/richest-americans-including-bezos-musk-and-buffett-paid-federal-income-taxes-equaling-just-34-of-401-billion-in-new-wealth-bombshell-report-shows/?sh=644869cd7fe1 (last visited Aug. 02, 2022).

[37] *Supra* Note 8, Rosalsky.

wealth tax in the country. Even imposing a surcharge on their income taxes will also not solve the problems of wealth inequalities and regression of the economy, because it is not affecting the wealth that is being hoarded by these top 0.1% of the population.[38] Moreover, COVID-19 has exacerbated the entire situation, with over 600 new billionaires emerging in India and the country's key equity indices Sensex and Nifty 50, being at almost their at-time high.[39]

While the rich are only growing richer and owning more capital, the poor are left with no employment, basic necessities and money (and whatever is left was gone to medical bills) due to the pandemic.[40] In such a situation, to counteract the ever-increasing wealth inequality, income tax and surcharge will never be a solution because the parameters of wealth are entirely different from the parameters of income. Moreover, the wealth inequality among the masses in India is much wider and deeper than the income inequality which is present. In the absence of any form of taxation, wealth (after a certain limit) just keeps accumulating on its own, in a self-reinforcing manner. Therefore, there has to be a call for wealth taxation.

Ideal Wealth Tax Design

An ideal wealth tax should be such that it meets all the aforementioned justifications for having a wealth tax. It should not only be a source of revenue for the state, but a solution to the ever-growing wealth disparity among the masses in India. As suggested by Picketty, an ideal wealth tax system should impose a tax on all forms of wealth which are regulated and managed by the state. This includes real estate, jewellery, intellectual properties (like trademarks and patents), items of art, stocks and shares, etc. All such forms of wealth have been tracked and registered by the state, so a defined form of registry already exists. Relying on this registry and subsequent definitions which have already been established by existing laws, imposing a wealth tax would be much more convenient and feasible for the state instead of building up a new system of recording and defining different forms of wealth.

The only responsibility with which the new wealth tax law could be tasked is calculating the financial worth of the said wealth item. One way of ascertaining

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[38] Ashish Khetan, *In post-Covid world, India must fix its broken tax structure to achieve social and economic justice*, THE LEAFLET (May 17, 2021) *available at*– https://theleaflet.in/in-post-covid-world-india-must-fix-its-broken-tax-structure-to-achieve-social-and-economic-justice/ (last visited Aug. 02, 2022).

[39] Nikhil Kapoor, *Why Accumulated Wealth in India Needs to Be Taxed More Progressively*, VIDHI LEGAL POLICY (Jul. 09, 2020) *available at* – https://vidhilegalpolicy.in/blog/why-accumulated-wealth-in-india-needs-to-be-taxed-more-progressively/ (last visited Aug. 02, 2022).

[40] *Id*.

the value would be as was done in Schedule III of the Wealth Tax Act, 1957, with detailed information about all forms of wealth. Moreover, there should be a defeasible clause inserted into such definition of wealth or asset under this new regime to ensure that any new forms of wealth, like cryptocurrency, can also subsequently be brought into the paradigm of wealth tax through rules and regulations, with no major amendment process. Additionally, provisions for calculating wealth under the Land Acquisition, Rehabilitation and Resettlement Act, 2013 can also perhaps be looked into for real estate.

Under this act, the market value of any land which is being acquired by the state can be calculated on three grounds. *Firstly*, the minimum land value as specified in the Indian Stamp Act, of 1899. *Secondly*, the average of the sale considerations of nearby lands in recent years. *Thirdly*, any amount which may be arrived at by the negotiations between the state and the land owners. A variation of the first or second models can be directly imported into any new wealth tax regime for easier calculation of the value of any real estate within an established system. Coming to the most important part of the wealth tax system, the imposing of wealth tax should be such that it creates little to no exceptions.

This would be a major shift of the new wealth tax regime from any previous iterations in India or in the world. Since the major problem plaguing all these iterations of wealth tax was its complexity arising due to numerous confusing exceptions, which made the law more about the exceptions than of being about wealth tax imposition. The few exceptions which may be present should also be such that they promote and incentivise more investment into growing industrial sectors which increase employment and production. These industries should be selected after a review process wherein it should be found that the ratio of the rate of increase in employment and national productivity with the increase in investment, should be the highest, or at least above a certain threshold figured out through the empirical study.

Moreover, the tax rate and slabs, being imposed should not be exorbitant to attract enormous amounts of public disagreement but should be such that it only affects the top 1% of even the top 0.1% of the population in terms of wealth. This should ensure the majority of the population, who lie in the middle and lower-middle class do not have to bear the brunt of the new tax. Lastly, the legislature should also set up a robust and transparent mechanism for handling the revenue obtained through such a wealth tax system. Instead of merely directing the same to the general budget of the government, the same can be specifically reserved and spent on social institutions and needs which can offset the huge wealth disparity and its subsequent adverse effects on the poor. This would be setting up a redistributive tax system in line with the

Rawlsian Difference Principle, where the tax being imposed would be for the benefit of the least well-off section of society.[41]

V

CONCLUSION

Wealth tax remains one of the most controversial and polarising topics for policy discussion across the world. Many countries around the world have tasted it, and are not willing to go back to it, in spite of the problem lies in the poor design of wealth tax and not in the idea of wealth tax itself. As explained in section two of this paper, wealth tax serves much more broad and pertinent purposes than just being another source of revenue for the state. It has various economic and political justifications, which can have large impacts on the economy and the state as a whole, particularly in the long run, with the widening disparity in the wealth held by the populous.

Almost every country which has abolished or is opposing wealth tax has reasons which are very superficial and lie only in the design of the wealth tax. They do not, in any way, override the broader idea of wealth taxation and the larger purpose it serves. This paper looks into the theories propounded by various theorists like Thomas Piketty, Katherina Pistor, John Maynard Keynes, John Rawls, etc., and uses them in the context of wealth tax to justify the existence of the same.

Finally, when looking at the Indian situation, it is clear that the surcharge system is something which is misplaced and cannot be an effective replacement for the wealth tax system, as its fundamental flaw still lies in the fact that it computes the tax based on a person's income and not on their wealth, whose exponential growth is entirely being excluded from all parameters of taxation in the country. This calls for a new system of taxation which places wealth as the fundamental parameter for imposing taxes, applicable to all forms of wealth with no exceptions.

[41] Narayan Lakshman, *India has to come to terms with inequality: Thomas Piketty*, THE HINDU (May 20, 2020) *available at*– https://www.thehindu.com/news/national/india-has-to-come-to-terms-with-inequality-thomas-piketty/article61448658.ece (last visited Aug. 02, 2022).