E. C. No. 977

ESTIMATES COMMITTEE
(1981-82)

(SEVENTH LOK SABHA)

NINETEENTH REPORT

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

DIRECT TAXES (WEALTH TAX, GIFT TAX AND ESTATE DUTY)

(PART I)

EXEMPTION LIMITS

सत्यमेव जयते

Presented to Lok Sabha on 19 FEB 1982

LOK SABHA SECRETARIAT
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February, 1982/Magh, 1903 (Saka)

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INTRODUCTION

I, the Chairman of Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Nineteenth Report on the Ministry of Finance (Department of Revenue)—Direct Taxes (Wealth Tax, Gift Tax and Estate Duty)—Part I—Exemption Limits.

2. At their sitting on 6th January, 1982, the Committee decided that they should formulate their views on some policy matters like Exemption Limits under Direct Taxes (Wealth Tax, Gift Tax and Estate Duty) and as provided under Direction 99(2) of the Directions by the Speaker, communicate them informally to the Finance Minister through the Chairman even before the comprehensive report of the Committee on the subject was ready.

3. At their sitting held on 13th January, 1982, after considering the views expressed in the various memoranda received from non-officials and formal and informal discussions held with them and after taking into consideration written replies received from the Ministry of Finance (Department of Revenue) and Central Board of Direct Taxes, the Committee unanimously finalised their recommendations on certain policy matters relating to Exemption Limits. These were communicated informally by the Chairman to the Finance Minister. The Committee also decided that after communicating these recommendations informally to the Finance Minister under Direction 99(2), a report of the Committee employing these recommendations should also be presented to the House.

4. The Report was considered and adopted by the Committee on 2nd February, 1982.

5. For facility of reference the recommendations/observations of the Committee have been printed in thick type in the body of the Report.

6. The Committee wish to express their thanks to various non-official organisations/bodies etc. who furnished memoranda to the Committee on the subject. The Committee also wish to express their thanks to the Ministry of Finance (Deptt. of Revenue) and Central Board of Direct Taxes for placing before them the material and information they wanted in connection with the examination of the subject.

NEW DELHI;
February 10, 1982
Magha 21, 1903 (*S*)

S. B. P. PATTABHI RAMA RAO,
Chairman,
Estimates Committee.

REPORT

WEALTH TAX, GIFT TAX AND ESTATE DUTY—EXEMPTION LIMITS

Wealth Tax

1.1 The exemption limit of Wealth Tax was originally fixed in 1957 at the time of enactment of the Wealth Tax Act in 1957 as under:

(i) In case of an individual—Rs. 2 lakhs

(ii) In case of a HUF—Rs. 4 lakhs

(iii) In case of a Company—Rs. 5 lakhs.

Wealth tax ceased to be levied on Companies from Ist April, 1960. The Exemption limit was reduced with effect from Assessment Year 1964-65 as follows:—

(i) In case of an individual—Rs. 1 lakh

(ii) In case of a HUF—Rs. 2 lakhs.

1.2 From the Assessment Year 1977-78 the Exemption Limit in case of HUF was further reduced and fixed at the same level as was fixed in the case of individuals *i.e.* Rs. 1 lakh.

1.3 The Exemption Limit of Rs. 1 lakh in case of both individual and HUF was raised to Rs. 1.5 lakhs from the Assessment Year 1980-81.

Gift Tax

1.4 At the time of enactment of Gift Tax Act, 1958, the basic exemption limit was fixed at Rs. 10,000. This exemption limit was reduced to Rs. 5,000 with effect from Ist April, 1971.

Estate Duty

1.5 The basic exemption limit under the Estate Duty Act was originally fixed on 15-10-1953 as follows:

Part I.	Exemption Limit
In the case of property which consists of an interest in the joint family property of a Hindu Family governed by the Mitakshara, Marumakkattayam or Aliyasanthana Law	Rs. 50,000/-

Part II

In case of property of any other kind . . . Rs. 1,00,000/-

Part III

In the case of shares held by a deceased member in any such company as is referred to in sub-section (i) of section 84 . . Rs. 5,000/-

This exemption limit was revised w.e.f.

1-7-1960 as under :

Part I

In the case of any property which passes or is deemed to pass on the death of deceased : . . . . Rs. 50,000/-

Part II

In the case of shares or debentures held by the deceased in any such company as is referred to in Sec. 20A : . . . . . Rs. 5,000/-

1.6 It is seen that the exemption limit in the case of Income Tax has been raised from Rs. 3600/- in 1951-52 to Rs. 15,000/- in 1981-82 as follows:—

Non-taxable minimum limits for (Income tax) for individuals	Rs.
1951-52 to 1952-53	3600/-
1953-54 to 1956-57	4200/-
1957-58 to 1965-66	3000/-
1966-67 to 1970-71	4000/-
1971-72 to 1974-75	5000/-
1975-76	6000/-
1976-77 to 1977-78	8000/-
1978-79 to 1980-81	10000/-
1981-82	15000/-

1.7 A number of representations have been made to the Committee suggesting that in view of the erosion in the value of rupee, the exemption limits for Wealth Tax, Gift Tax and Estate Duty should be linked with inflation in prices or, at least, raised as follows:—

Wealth Tax	Rs. 3—10 lakhs
Gift Tax	Rs. 10,000—25,000
Estate Duty	Rs. 1.5—5 lakhs.

1.8 The Ministry have stated that it has never been the policy of Government to adjust taxation to the price level. It may not, therefore, be justifiable to assess the present value of the Exemption Limits taking into account the inflation keeping the year fixed for exemption limit as the base year.

1.9 Dealing with the specific suggestion to raise exemption limits to varying amounts, the Minister have stated as follows:—

Wealth Tax

The basic exemption limit for the purpose of assessment of Wealth Tax was fixed at Rs. 1 lakh effective for assessment year 1964-65 and upwards upto the assessment year 1979-80. For the assessment year 1980-81 the limit has been raised to Rs. 1.5 lakh. The monitary limits on direct taxes are constantly under review of Government and modifications as and when required are made through annual Finance Bill.

The exemptions allowed under Wealth Tax Act had been substantially enlarged since 1964. A few of such important exemptions are given in Appendix I.

Gift Tax

Initially, the exemption limit under the Gift-tax Act was fixed at Rs. 10,000. By the Finance Act, 1970 this limit was reduced from Rs. 10,000 to Rs. 5,000 and by the same amending Act the rates of tax in various slabs were also re-adjusted. This modification was made with a view to bringing the rates of Gift Tax more in line with the rates of Estate Duty and to reduce the scope for avoidance of Estate Duty liability by making gifts. In other words, the revision in the exemption limit as well as the modifications in the rates were made primarily with a view to check the fragmentation of income and wealth by persons in the higher income and wealth brackets.

Estate Duty

The desirability of having the Estate Duty Act ought to be viewed not exclusively in terms of the revenue that it yields but also with reference to the purpose that it serves. As pointed out by the Chokshi Committee in their final Report, it serves to support the progressivity of the tax structure and limits the growth of large inherited fortunes thus catering to a socialistic objective. It has never been the policy of the Government to adjust taxation to price index, However, the Bill to give effect to the announcement made by Finance Minister in his Budget Speech for 1981-82, including raising of the exemption limit under the Estate Duty Act, is likely to be introduced in the next Session of the Parliament after obtaining the concurrence of States.

Exemption of House Property from Wealth Tax

1.10 Under Section 5 (4) of the Wealth Tax Act an house or part of a house belonging to the assessee is exempted from Wealth tax. This exemption is limited to Rs. 1 lakh. If the market value is more than Rs. 1 lakh then excess will be included in the net wealth of the assessee.

Exemption of jewellery from. Wealth Tax

1.11 It has been represented to the Committee that jewellery within limits cannot be considered as luxury in the eyes of Indian woman. This is necessary in view of the social and religious systems and customs prevailing in our country. When Wealth Tax Act was initially introduced exemption was granted in respect of jewellery to the extent of Rs. 25,000 but that exemption was withdrawn later. Due to enormous price rise in gold and silver the cost of jewellery has gone up multi-fold over the years. It has been suggested that while assessing a person's wealth, exemption in respect of jewellery upto a value of Rs. 1 lakh should be granted.

1.12 In another memorandum it has been suggested that the value of silver ware and gold jewellery should be pegged down to the value that obtained in 1971 following the precedent adopted in regard to other forms of property.

1.13 Another suggestion made to the Committee is that atleast jewels of 4 kg. or jewels worth Rs. 5 lakhs should be given exemption from Wealth Tax. This will relieve pressure on the assessees, mostly women assessees, who have no other income producing wealth to pay their recurring tax except by selling the traditional/ancestral ornaments when there is actually no appreciation in the real wealth in the sense that there is no increase in the quantity or weight of the traditional possession of jewels.

1.14 It has also been suggested that jewellery upto a certain weight per member of the family should be exempted from Wealth

Tax and the quantity over and above the exempted limit should be valued with reference to the cost of acquisition or the price obtaining in a base year, say 1971.

Exemption of Gifts for charitable purposes

1.15 Under Section 5 (1) of Gift Tax Act, gift tax is not charged in respect of gifts made to any institution or fund established or deemed to be established for charitable purposes.

1.16 It has been represented to the Committee that while gifts/donations given in cash for public charitable purposes are exempt from Gift-tax, such relief is not available to donations/gifts in kind. It has been suggested that gifts/donations in kind should also enjoy such relief.

1.17 The Ministry have informed the Committee that the Board has already in its latest circular *viz.* Circular No. 304 dated 2-6-1981, clarified that exemption u/s 5(1) (v) of the Gift Tax Act is not confined to donations in cash/money only but is applicable to all types of properties, movable or immovable.

1.18 The Committee find that the Exemption Limit in the case of Income Tax has been progressively increased from Rs. 3600/- in 1951-52 to Rs. 15,000/- in 1981-82. In case of Wealth Tax and Gift Tax the Exemption Limits have in fact been reduced after the enactment of relevant Acts in 1957 and 1958. In case of Estate Duty the level of Exemption Limit has remained the same since 1953. In 1981-82 it was proposed by the Finance Minister to increase the Exemption Limit for Estate Duty from Rs. 50,000/- to Rs. 1.5 lakh but the proposal is still awaiting legislative sanction.

1.19 The Committee have given a careful thought to the numerous representations received regarding aforesaid exemption limits and certain other reliefs under these taxes and also the views of the Ministry of Finance in this regard. The Committee feel that time has now come to increase the exemption limits for Gift Tax, Wealth Tax and Estate Duty. The Committee recommend that the exemption limits for the purpose of these taxes should be raised as follows:—

(a) The exemption limit for the purpose of Wealth Tax should be raised from Rs. 1.5 lakhs as at present to Rs. 2.5 lakhs.

(b) The exemption limit for the purpose of Gift Tax should be raised from Rs. 5000 to Rs. 15,000.

(c) The exemption limit for the purpose of Estate Duty should be raised from Rs. 50,000/- to Rs. 2.5 lakhs. (S. No. 1)

1.20 At present one house or part of a house upto the value of Rs. 1 lakh is not included in the net wealth of an assessee for the purpose of Wealth Tax. In view of the sharp increase in the land and construction costs, the Committee recommend that this limit should be raised to Rs. 1.5 lakhs. That is to say, a house upto the value of Rs. 1.5 lakhs should be exempted for the purpose of computation of net wealth of an assessee under the Wealth Tax Act. (S. No. 2)

1.21 Taking into consideration the enormous rise in gold prices, the Committee also recommend that the value of gold jewellery for the purpose of Wealth Tax should be pegged down to the value as obtaining on 31st March, 1975. (S. No. 3)

1.22 The Committee are of the view that exemption of gifts made to institutions for charitable purposes should not be confined to donations in cash/money only. The exemption should be extended to gifts in kind also. The Committee are glad to note that a clarification has been issued by the Central Board stating that the exemption in this regard is applicable to all types of properties, movable or immobable. (S. No. 4)

NEW DELHI;
February 10, 1982
Magha 21, 1904 (*Saka*)

S. B. P. PATTABHI RAMA RAO
Chairman,
Estimates Committee.

APPENDIX

IMPORTANT EXEMPTIONS ALLOWED UNDER WEALTH-TAX ACT SINCE 1964

One house or part of a house belonging to the assessee upto a value of Rs. 1 lakh. Earlier, this exemption was limited to a case where the house was exclusively used by the assessee for residential purposes. This restriction was removed w.e.f. 1st April, 1972 with the result that even if a house is let out, an assessee could still avail of the exemption under section 5(1)(iv) of the Wealth-tax Act.

(ii) One or more dwelling units (each such dwelling unit having a plinth area not exceeding eighty square metres) and the land appurtenant thereto, belonging to the assessee, where the construction of such dwelling unit or units is begun on or after the 1st day of April, 1976.

(iii) Deposit under any scheme framed by the Central Government and notified in this behalf.

assets

(iv) The investment in financial assets qualifying for exemption from Wealth-tax Act has been widened considerably as compared to the position obtaining in 1964. This is within the overall limit of Rs. 1.5 lakhs for the specified investments taken together.

(v) The amount standing to the credit of an employee in any Provident Fund maintained by his employer to which the Provident Funds Act, 1925 applies or which is a recognised provident fund under the Income-tax Act.

(vi) The amount standing to the credit of an individual in a Public Provident Fund established under the Public Provident Funds Scheme 1968.

(vii) Any security of the Central Government or State Government other than those specified in section 5(1)(xvi) & (xvia).

(viii) Any shares in an Indian Company other than shares referred to in section 5(1)(xx) & (xxa).

(ix) Units in the Unit Trust of India.

(x) Any deposits with a banking company or cooperative society engaged in the business of banking.

(xi) Any shares in a cooperative society made by a member of the society.

(xii) Any deposit with a cooperative society made by a member of the society.

(xiii) The value of any building belonging to the assessee, where the building is used solely for the purpose of residence of persons employed by the assessee in any plantation or industrial undertaking belonging to the assessee and the income of each such person chargeable under the head "Salaries" under the Income-tax Act is ten thousand rupees or less.

(xiv) The value of assets not being any land or building forming part of an industrial undertaking engaged in the business of generation or distribution of electricity or any other form of power or in the construction of ships or in the manufacture or processing of goods or in mining.

(xv) The value of the interest of the assessee in the assets not being any land or building to a firm or association of persons of which the assessee is a partner or, as case may be, a member.

(xvi) In the case of an assessee being a person of Indian origin who was ordinarily residing in a foreign country and who, on leaving such country, has returned to India with the intention of permanently residing here, moneys and the value of assets brought by him into India and the value of the assets acquired by him out of such moneys for a period of seven successive years commencing with the assessment year next following the date on which such person returned to India.

(xvii) In the case of an individual, being a citizen of India, who is not resident in India during the year ending on the valuation date, the value of any equity shares in any company of the type referred to in clause (d) of section 45 which is engaged in the business of manufacture or production of any one or more of the articles or things specified in Schedule-II or which is certified by the prescribed authority to have undertaken the export of such percentage of its total production as may be specified in this behalf by the prescribed authority, where such shares form part of the initial issue of the equity share capital made by the company after the 31st day of March, 1976 or where such shares form part of an issue of equity share capital which is certified by the prescribed authority to have been made by the company after 31st day of March, 1976, for the purposes of expansion or liversification of its industrial undertaking.

It has also never been the policy of the Government to adjust taxation to price index. It will, therefore, not be desirable to link modification in the exemption limit of wealth-tax with the value of the rupee.

The monetary limits in direct taxes are constantly under review of the Government and modifications, as and when required, are made through the annual Finance Bill.