WEALTH TAX BILL

The Minister of Finance (Shri T. T. Krishnamachari): I beg to move that the Bill to provide for the levy of wealth-tax be referred to a Select Committee consisting of Shri Asoke K Sen, Shri H C Heda, Shri Praful-la Chandra Borooah, Shri R Jagannath Rao, Shri Muhammed Khuda Bukhsh, Shri Narendrabhai Nathwam, Shri Shivram Rango Rane, Shri Anand Chandra Joshi, Dr G S Melkote Giani Gurmukh Singh Musafir, Shri G D Somam, Shri R R Morarka, Shri Feroze Gandhi, Shri C D Pande, Shri Tribhuan Narayan Singh, Shri R M Hajarnavis, Shri M R Krishna, Shrimati Tarkeshwari Sinha, Shri Ram Subhag Singh, Shri Nemi Chandra Kashiwal, Shri Saif F B Tyabji, Shri Fatehsinhrao Pratapsmhrao Gaekwad, Shri K Periaswami Gounder Shri Bali Ram Bhagat, Shri U S Malliah, Prof N G Ranga, Shri T C N Menon, Shri Prabhat Kar, Shri Bimal Comar Ghose, Shri Laisram Achaw Singh Shri R K Khadilkai Shri M R Masani, H H Maharaja Sri Karni Singhji of Bikaner, Dr A Krishnaswami and the Mover, with instructions to report by the 12th August 1957

In one sense this Bill and the next Bill that I will move are part of one attempt at improving our tax structure and that is why I suggested that I may move the two together and make a single speech

In the speech that I made at the time I introduced the Budget, I had given more or less full particulars in regard to this Bill and the discussion to a very large extent has taken place in regard to the principles of these two Bills, and therefore it is unnecessary for me to go over the whole ground again

The Bill has been before the country for nearly two months and I might say that all that I have heard inside and outside the House has not in any sense altered the justification that I originally claimed for introducing this Bill Hon Members know that a tax on wealth is considered to be complementary to a tax on income, and the two together are a measure of a person's ability to pay taxes As I have explained before, it is just because a wealth tax is proposed to be imposed, and an expenditure tax as well, that I suggested in the Finance Bill a reduction in the income-tax and super tax, particularly the earned income rates of individuals

The wealth tax is proposed on individuals with a wealth of more than Rs 2 lakhs, on Hindu undivided families with a wealth of more than Rs 3 lakhs, and on companies with a wealth of more than Rs 5 lakhs

It has often been said and I do believe that even parties that normally would support this measure in this House have been heard to tell the common people Here you are, you voted for the Congress, so you will have to pay a wealth tax" And many people have asked me 'Have I got to pay the wealth tax?" The question which I have to ask them is Have you got Rs 2 lakhs?" Well, they have not got Many of these people who are told that the Congress Party which they have returned to power have imposed a tax on their wealth, have not got Rs 2 lakhs, and so much of the agitation against the wealth tax engendered by vested interests and even people who are not vested interests who want to agitate against this tax for political purposes is without any foundation I can understand the vested interests complaining because it does affect them and it is intended to affect them, but the propaganda that is being made, the processions that are taken out, the protest meetings that are being engineered, no matter what their principle is they are all done by people who I suppose in this House will support the principle of the tax And of course it is their duty to mislead the people that is democracy I have no complaint

Shri Hem Barua (Gauhati) Is it not the wealthy people who are carrying on the propaganda?

Shri T. T. Krishnamachari: They do, but also others who are not supporting the wealthy people, that is my grievance. I am quite prepared to admit that wealthy people complain, and rightly complain. I have no quarrel with them at all. After all, if you are going to take a sacrificial goat to the altar, and the goat wants to hit you, to bore you down, I think it is perfectly entitled. It is a measure of self-protection. The organisation of the wealthy people in this country in the shape of forums is a very justifiable method of defending their own interests, I have no grouse against them. In spite of the fact that I am called the most atrocious names, I have really no anger against them.

Shri V. P. Nayar (Quilon): What's in a name? That which we call a rose by any other name would smell as sweet.

Shri T. T. Krishnamachari: The trouble is that those people who do not believe that the tax is wrong, would still like to tell the people: "See what you have done, whom you have put in power." But the common people who voted for me or my party have not got Rs. 2 lakhs and over, they are not likely to get it. Therefore, much of the agitation, the bulk of the agitation I should say, which reaches the common man has been intended for political purposes, has been an agitation deliberately, wilfully misdirected in order to cloud the issues and the bona fides of Government in introducing these taxes.

It is said that according to the figures known to the income-tax authorities, and I would admit those figures are by no means complete, we shall have about 36,000 assessees including companies, but we do expect that we should be able to get a lot more once the tax is in operation, and that is exactly another reason why the tax is introduced.

We have tried as far as it lies within our power, even in the booklets that we have issued, to explain the necessity of this tax. So far as the drafting of the Bill is concerned, we have taken particular care to avoid disincentives as much as possible in the way of production of more wealth for the country and increase in the national wealth, but I think it is for the Select Committee to examine this matter and pronounce an opinion whether any changes are necessary in order to safeguard certain principle which it is worth while to safeguard in a developing economy.

In the meantime I had myself to think of what we should place before the Select Committee in regard to the changes that we consider necessary, and we have been working at it. I am sorry to say that I have not been able to find many changes that I can suggest to the Select Committee in the wealth tax. It does not mean necessarily that the Select Committee will not be able to make changes if some of the Members of the Select Committee have some more fertile imagination than such as I may be able to command either in person or through my officers.

I had at the conclusion of the general debate on the Budget mentioned two changes which I intend to place before the Select Committee. The first change proposed by me then was to give a wealth tax holiday in regard to companies for the first five years from the date of incorporation, that is until they earn, provided the undertaking is not formed by splitting up or reconstruction of existing businesses or by the transfer to a new business of buildings, machinery, plant etc. that has been used in the existing business. The other change that I mentioned was that investments of one company in another, namely what are called inter-corporate investments, will not be liable to wealth tax. It has been suggested to me that *a fortiori* the first suggestion that I have made, namely giving a wealth tax holiday to companies should also be given to individual investors; that is to say,

a person who has bought shares in a new company, on which he is not likely to get any income for five years should not be called upon to pay any wealth tax May be, it is likely that he might sell the shares to an existing company and buy shares in a new company But I would leave it to the Select Committee to judge whether it is proper to extend the principles to individual investors in a new firm Of course, in the case of income-tax, we give that concession, it is not a principle which is new But it is for the Select Committee to examine this particular matter

The other suggestion that I thought I should put before the Select Committee was in the case of a non-Indian who resides elsewhere and has property in this country It has been said that wealth tax is a disincentive People will probably sell their investments and take their money back It may be that if he is a non-Indian not resident in this country, and he has an investment at the present moment if he sells it, it may be very embarrassing to me from the point of view of foreign exchange It is for the consideration of the Select Committee whether in this case we should not offer some kind of concession that is to say while he will be liable to pay wealth tax the rate will be somewhat lower may be round about 50 per cent

So far as the criticisms against the tax are concerned apart from the fact that it has been said by vested interests that it will be a disincentive against investment that it would prevent growth of companies and that corporate investment will not take place and so on, one outstanding complaint was that it would lead to harassment that there would be more harassment by the wealth tax authorities that is to say the income-tax authorities and that they will go into all the personal effects of a person and find out how many pieces of clothing he has, and how much of pots and pans and crockery he has

Of course, the fact that we have given Rs 25,000 exemption takes away what you might call the common man's complaint But a complaint has been made, and it is for the Select Committee to consider whether we shall give up the tax in regard to personal effects, pots and pans, crockery, furniture, livestock and things of that sort, and merely stick to jewellery It is tangible wealth After all personal effects cannot be sold and money cannot be garbed Maybe, even if you buy a radio and you sell it, you sell it at a loss and the quick changes does not happen But in the case of jewellery, you can probably sell it you have not to sell it at a loss, you can even sell it at a profit

It is for the Select Committee to consider whether personal effects should come in in view of the fact that the income-tax man will go and ask how many blouses a lady has One friend asked me, How can any person come and ask my wife how many jewels she has?' If she has no jewels the questions will not be asked The simple thing to do is not even to divest herself of the wealth but to cash the jewels and put it in the bank Incidentally, probably the jewels might give some foreign exchange for us, we might sell it abroad My hon friend Shri S A Dange even though he might sympathise with me might say in answer to that that it is callous

Therefore we might think that so far as jewellery is concerned it can not be exempted because jewellery is part of people's wealth and often times it runs into lakhs and sometimes into crores of rupees But that is a matter for the Select Committee to consider, namely eliminating furniture household utensils clothes, livestock and so on I do not mind how many sterile cows a person has or how many milk yielding cows and all that sort of thing We can probably eliminate them But that is for the Select Committee to decide

[Shri T T Krishnamachari]

Then, in regard to valuation, the Bill provides that all assets will be valued at what they fetch if sold in the open market on the valuation day So far as stocks and securities are concerned, the valuation of these will not be very difficult, because stock exchange prices afford an indicator

As regards immovable property, it is possible only to go upon local conditions and the general principles of valuing the asset on the basis of the rent that it fetches

In this connection, hon Members will notice that under clause 24(5), the assessee has the right to refer the question of disputed value of any immovable property to the arbitration of a committee consisting of a valuer and an adviser appointed by the Central Board of Revenue in this regard

Some reference has been made by hon Members here and also by the deputations that met me to the provisions of the U K Estate Duty Act, under which the Board of Inland Revenue has the right to accept real and household property in satisfaction of payment of estate duty, succession duty etc It has been suggested that Government should be prepared to take over property at the valuation placed upon it by the wealth tax officer I might mention that although the Board and the assessee in U K have the power by mutual agreement to take over such property, there is no statutory provision in regard to the acquisition price This acquisition price depends upon agreement so that it is a matter of negotiation As far as I can gather the value payable is the value of the property at the time of the negotiations, which may be different from the value for duty on the date of the death of the assessee, in the case of estate duty The U K parallel is, therefore of no help in this matter, because the valuation still remains a subject of negotiation

These, in brief, are the changes that I thought that Government might put before the Select Committee for their examination I have nothing more to say about the Wealth Tax Bill

So far as the changes that might be made are concerned—may be, there might be one or two verbal alterations—the Select Committee itself is a very impressive Committee with a large element of legal talent

Shri V. P Nayar. And wealthy persons too

Shri T T. Krishnamachari. and I do hope that they will be able to scrutinise the Bill and send it back to the House with their report, so that it will be a Bill which will cause the least amount of annoyance to the people and will also not be, under ordinary circumstances, the subject of litigation Sir, I commend my motion for the acceptance of the House

Mr Chairman. The motion to refer the Bill to a Select Committee is before the House

Shri V P Nayar. I listened to the Finance Minister's speech But when I went through the Bill, I could not help thinking that the Finance Minister is not as serious in this measure as he ought to have been, in this legislation

The Bill undoubtedly, has certain advantages And coming as it does in this context of financial strain, certainly it is welcome to the extent it goes With the background of collection of taxes as we know, I am not however very hopeful about the results, and I am sure that the Finance Minister has made no serious attempt to mop up all the surplus money which may be left with the richest classes

We know that in his budget proposals, he has given some relief to the tunc of Rs 7½ crores for the highest tax-paying slab At the same time, he has had to take about Rs 5 crores from the lower slabs And

here he comes forward with a Bill and says that he will take credit, on account of this Bill, to the extent of Rs. 15 crores.

I do not know the exact figure but I am very glad that he himself confessed that the figures at his disposal may not be very correct.

Shri T. T. Krishnamachari: I am afraid I never said that my estimate was m any way an overestimate I do not think my hon friend can draw from anything that I have said that my estimate of Rs 15 crores is an over-estimate On the other hand, I have been accused by many people that it is an under-estimate

Shri V. P. Nayar: It is an under-estimate and a gross one too, that is what I say

Shri T. T. Krishnamachari: If I get more money, it is quite welcome

Shri V. P. Nayar: I do not know Sir, how when Prof Kaldor himself thought that by this tax for the first year we may get Rs 20 crores, the Finance Minister seems to think that we will get only Rs 15 crores I am sure Government have no figures and they have to rely by and large on those supplied by the income-tax department When we know that tax evasion is still being practised—and practised to a very large extent—the figures given by the Finance Minister are certainly liable to be an under-estimate I am sure if figures are collected, it may be possible for him to collect not Rs 15 crores, but double or treble that amount

As you go through the provisions of the Bill, you will find that it has some peculiarities After the decision of the Government to tax wealth was publicised, you find that both the Finance Minister and his Deputy being over-anxious and going about the country telling big business men that they need not fear so much about harassment

Shri Punnoose (Ambalapuzha): Consoling their children

Shri V. P. Nayar: Shri Punnoose says it is consoling their children. I do not go to that extent, but I would say that it is consoling their dear friends.

I find Sir, that even Shri B. R. Bhagat, when he went to Poona and made a speech on the Second Five Year Plan, prefaced it by saying that the new taxes may do a bit harm but nobody need be worried that he will be harassed I ask them, why this over-solicitude? Do they think that these richest people amongst us will not be able to pay these taxes We do not find the same solicitude when it is a question of taxing the lower slabs

Sir, I also find the Finance Minister speaking in Calcutta almost assuring the same, but I know that despite these comforting statements of the hon Minister and the Deputy Minister, there is opposition from among our friends on the other side.

There has been a campaign against this tax Many trade associations have protested, I find my hon friend, Shri G D Somani, looking very seriously at me, he may have a different view, but I know that, as pointed out by the Finance Minister, vested interests have been doing a lot of campaign against this They have produced several articles written by so-called economists on the defects of this Bill, how it will prevent incentives for the business community All this is nothing short of nonsense, because the opinion of economists who do not hold a brief for a socialist pattern of society, indicates—and indicates very clearly—that this wealth tax will not result in any incentives being taken away either for investment or for other purposes

I was interested to read in Prof Nicholas Kaldor's report that this would not be so As everybody will agree, Prof Kaldor did not come to India with a brief for introducing a socialist pattern of society. You will also find in a representative journal of India's biggest business saying that

[Shri V. P. Nayar]

this tax will not be a disincentive or deterrent to investment; on the other hand, it will only promote some more investment. I am referring in this connection to a statement in one of the most authoritative publications representing the interests of capitalists in India, the *Fortnightly Share Market Report* which is quoted in a very critical leading article of the *Hindustan Times* of the 20th June, 1957. It says:

> "The *Fortnightly Share Market Report* issued by the well-known share broker firm of Place, Siddons and Gough seriously argues that the new tax proposals are in a way bullish to equities. Both the taxes, it is considered, instead of discouraging investment, may actually stimulate it, on the one hand by curtailing expenditure and on the other, by coaxing capital".

But the editorial note of the *Hindustan Times* would dismiss this as 'rather conjectural'. Probably, in their way they do it. But we know that this wealth tax will not in any way affect investment adversely. Then why all this fight? We have received tons of representations—I am sure every Member of Parliament must have received them—asking us to oppose the wealth tax and the expenditure tax. I am sure many hon. Members who will be speaking on this will have something more to say about these.

So when you are very tight for money and when you have already given some reliefs to the richest section of our people to the extent of Rs. 7½ crores, you introduce a Bill by which you hope to collect a tax of Rs. 15 crores. I submit that as we read the provisions of the Bill, in the background of the income-tax collections, we are inclined to think that Government have a double purpose: (a) to allay the feelings of the lower sections in having been taxed for the Plan, and (b) to create the illusion that all that could be mopped up from the richest people is being mopped up.

This Bill has several shortcomings. I do not want to go into all the details. But if you go through the provisions, it will be found that the Bill ought to have been presented to the House in a very much better form. I do not go about drafting details, because they can undoubtedly be improved. But there are certain points in regard to the provisions of the Bill which require very serious consideration by the Select Committee. There is, for example, chapter III. The hon. Mover states in his Financial Memorandum attached to the Bill that this will be a tax which will be collected by the income-tax department, because the assessment and collection which will have to be resorted to under the provisions of the Bill are almost similar to the assessment and collection under the Income-Tax Act. I agree, but then there is one difference, that in the matter of income-tax, there is some account of the income kept and therefore it is easier; in the matter of collecting wealth tax, I do not believe that a person who owns wealth will keep such accounts in such a way as to facilitate assessment and collection, and unless we are very certain about the officers who are deputed for this job—very very able and honest officers—there is no point in asking them to collect.

The income-tax department, as the Mover says in his memorandum, is overburdened with work. We know that despite all the amendments which this House has passed relating to the Income-tax Act, despite several inquiries conducted by the Income-tax Investigation Commission, we find tax evasion on a wide scale. Even here, Prof. Kaldor has given a figure which I do not want to quote because it has very often been quoted in the House.

Now, Sir, a department which has not been able to plug the holes in an existing law and collect all the money

which ought to have been collected and which has left scope for large-scale evasion and which has not been able to check evasion to any appreciable extent, is being asked to go into this work I submit this will not be fair to the cause for which we are introducing this Bill On the other hand, I submit that as assessment and collection of wealth tax requires the services of very honest type of people I do not say that all the income-tax officials are corrupt, some of them are and others are not—and as in this case the work involves certain duties which are certainly more strenuous than those of an income-tax official, the Select Committee should consider wheather they should not revise the chapter instead of making the income-tax officials responsible for assessment and collection, an entirely different team the cote of which, in view of the very great job which is ahead of them, should consist of officers recruited from the judiciary, a department which has the least suspicion of corruption around it Therefore, I submit that once it is accepted that the assessment and collection of this tax has to be done by a different set of very efficient and honest officers about whose integrity there is comparatively a lesser charge from the public, then, the whole machinery improve

As I go through the other provisions I find that there are many shortcomings I will refer to the definition clause Here, 'net wealth' is defined As the hon Mover said two months ago the declaration of the intention of this Government to impose a wealth tax was made known to the public Now Sir, 'Net wealth' is described as follows —

> " Net wealth' means the amount by which the aggregate value computed in accordance with the provisions of this Act of all the assets, wherever located belonging to the assessee on the valuation date, including assets required to be included in his net wealth as on that date under this Act, is in excess of the aggregate value of all the debts owed by the assessee on the valuation date other than debts which under section 6 are not to be taken into account,"

Nowhere is debt defined So, we have to take 'debt' in its common parlance The difficulty is this As we know from the reports of the Income-tax Investigation Commission, firms which have been supposed to keep accounts in the reasonable course of business, in the conduct of business have accounted for fictitious debts They have bought fictitious debts If you put the definition of net wealth and put debt there, having given an opportunity for the entire tax-paying section to know that Government is coming out with such a legislation, how will you prevent such fictitious debts being put into the accounts? They had plenty of time and, in the time which will never be wasted by such people, you will find that a number of fictitious debts will be acquired How will you prevent that? That is a provision which if not changed will rob Government of its legitimate dues

I would refer to the provision of clause 6 Here, again, there is some trouble I do not understand how this is going to be applied In Explanation II it is stated

> A company shall be deemed to be resident in India during the year ending on the valuation date if during that year the control and management of its affairs is situated wholly in India"

What happens in the case of a company incorporated in India but which manages its affairs in India through a London office We know companies like the Kannan Devon Hills Produce Co Ltd, incorporated in London and managing the affairs in India Here, unfortunately, the words are—control and management of its affairs is wholly in India It is not very clear to my mind—probably, my understanding is not correct—but I think that by this provision you are giving a chance for certain foreign

[Shri V P. Nayar]

companies which function in India to escape the Wealth Tax.

Then, again, you find in clause 7(2) that the Income-tax Officer also functions as the Wealth-tax Officer It is said—

" the Wealth-tax Officer may, instead of determining separately the value of each asset held by the assessee in such business, determine the net value of the assets of the business as a whole having regard to the balance-sheet of such business, "

What is the balance-sheet? Is Government prepared to say that all balance-sheets reveal the exact state of accounts? Can they say that they are all true and have nothing but truth? I, for one, would think that all balance-sheets, almost every one of them, are manipulated and more so in the case of balance-sheets prepared by companies managed by managing agents So, if you are giving the Income-tax Officer or the Wealth-tax Officer the authority to believe the balance sheet, then, there is trouble Most of these manipulators will find some way of escape through their balance-sheets and they will rely on the balance-sheets for purposes of assessment

There is another question which I want the Select Committee to consider very seriously and that is the provision in clause 18, penalty for concealment I know that under the Income-tax Act which is now in force, the penalty for concealing the correct income is about 150 per cent of the tax Very conveniently, the same percentage has also been incorporated in this But, is it justified? What is a penalty worth if it is not deterrent? Here, again, I would request the hon Minister who takes his cue from Prof Kaldor to read that report and find out what he had to say Prof Kaldor says that the penalt ought to be very deterrent in order to avoid tax evasion I do not propose to read the entire passage The hon Deputy Minister has the book before him and he may refer to page 131 There it is said.

"I very much doubt whether the policy of 'softness' is of much avail, or whether, on the contrary, it tends to increase the scope of evasion For it leads to a 'heads I win, tails I do not lose' attitude, which must have the most destructive effect on tax morality Indeed, even if a taxpayer knows that he cannot avoid penalties in case of detection it may still pay him to evade so long as the chances of detection are considered by him to be less than the proportion which the tax evaded bears to the total liability (i e, penalty plus original tax charge) he would incur in the event of being detected Thus if the penalty imposed is equal to 100% of the tax evaded, it pays to evade so long as the chance of detection are less than 50% The maximum that can be levied under the Income Tax Act in India is 150% "

Later on, Prof Kaldor in the same paragraph says

" the likelihood of detection in India is above 1 in 10 in the average, so that to be a real deterrent the penalty imposed should be more than 10 times the sum risked and not 1½ times"

Despite Prof Kaldor's very unambiguous statement that tax evasion is very rampant in this country, if Government have any intention to have a deterrent punishment to prevent tax evasion it is surprising that the hon Minister has chosen to introduce a measure which considers a penalty of 150 per cent as sufficiently deterrent It will provide an opportunity for the tax evaders who have developed it as a fine art to indulge in that as long as they choose to do

Sir I also wish to refer to another provision about which I think the hon Finance Minister has already received a representation Under section 61 of the Income Tax Act—I am

liable to correction—I think in case where income-tax matters are taken before competent authorities, apart from a pleader or a representative an income-tax practitioner can also appear On the one hand the Government says that this is almost like income-tax and that the income-tax department will take up the work Then, I do not understand why in clause 44 the income-tax practitioners have been left out

We have received a copy of a petition and I find that there is a very strong case for the inclusion of income-tax practitioners also, who have been defined under section 61 of the Income Tax Act, as it stands today, to represent parties

There is one other question also which I want the Select Committee and the Minister to consider We are fixing some fees for appeals I have not applied my mind in detail to that but on a rough calculation it appears that the lowest tax which could be levied on incomes will come to about Rs 1,500 or Rs 1,000, or from Rs 1,000 to Rs 1,500 In every case of appeal, the provision is for a fee of Rs 100 Cannot we think in terms of having a percentage because here it is not that every assessee will have to pay Rs 1,500 Most of them will have to pay more and for every appeal the prescribed fee is Rs 100 Instead of that, I would suggest that a percentage basis of the amount involved in the appeal may be fixed It may be ten or fifteen per cent The section relating to the provision of appeals should be modified accordingly

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With these suggestions, I welcome the Bill subject to this condition that Government must make a very serious effort to realise as much money as it can The charge of the business community that the Government, by such measures, is trying to kill the goose which lays the golden egg is a charge made not with any patriotic instinct We know that the top business people can never be called as goose which lay golden eggs The eggs they have laid are mostly rotten and no mercy need be shown to them Every effort should be made to collect as much money as possible by these measures and every provision should be thought of in terms of plugging every possible loop-hole as the tax dodgers and tax evadors who practise this profession as a fine art, would reap rich harvests from any lacuna which may possibly be left out in case we do not take sufficient care about the wording of the various provisions With these words, I submit that I welcome this Bill in so far as it goes

Shri Naushir Bharucha (East Khandesh) I rise to support the Bill because it appears, if we are serious about the socialist pattern of society, a Bill of this character is inevitable The Finance Minister pointed out various justifications for these measures If one is to have an integrated system of personal taxation, it becomes inevitable that the income tax has to be supplemented by other taxes such as the wealth tax, expenditure tax and probably gift tax, which may probably be in store for us the next year It does seem that if the personal taxation system has to be integrated, this measure is inevitable It is egalitarian in intent and purpose But, the real reason seems to be that the stark necessity of the State to save the Five Year Plan from collapse for want of funds that alone is one big justification

If we examine the scheme of the Bill, it will be found that if a tax on wealth has to be levied, wealth has to be defined It has been defined in clause 2 The method and manner of computing wealth has been laid down in clauses 4 and 5 Certain items have been excluded To my mind, they do not seem to be of a very important character but they may be accepted on grounds of expediency After the net wealth is determined, certain procedure follows Ample provisions have been made for appeals from decisions of various officers and I do not think that anybody can find fault with the procedure laid down

[Shri Nausher Bharucha]

for appeals, revisions, references to High Court and even to Supreme Court, if need be.

The second point that I desire to deal with is the incidence of this tax. It has been said that this tax has to be levied on individuals, joint Hindu families and companies. Let us take individuals first. There is considerable agitation in certain quarters that the schedule of tax, the imposition of a tax of 0·5 to 1·5 per cent, taken together with other taxes such as the income-tax in the higher brackets, may lead to a stage where not only the entire income of the individual will be taken up by taxation but that the assessee will have to pay something out of his capital. I have read a table where it has been pointed out that if one values his capital at the rate of six per cent for the purpose, the income in that case of a person having Rs. 5 lakhs will roughly be about Rs. 30,000 and he will have to pay only Rs. 8,000. A person with Rs. 10 lakhs may have to pay about Rs. 30,000 and a stage is reached at Rs. 80 lakhs, where he pays all the income to the State by way of personal taxation. Not only that. It is calculated that he will have to pay Rs. 24 from out of his capital to make good the tax demand.

Now, I ask: is that a reason for rejecting this tax? If a man has got Rs. 80 lakhs, I will tell him certainly to pay not only the entire income but a little bit out of his capital also. Calculated at Rs. 24 per annum, it will take a person having Rs. 80 lakhs about 350,000 years to wipe off his capital. It is absurd for anybody to say that a stage is reached in this tax measure where not only the entire income is taken up but something out of his capital. His duty to the society is that he must pay out of his capital as well.

The second point is that the incidence does not at all seem to be heavy. People with a net wealth of about Rs. 2 lakhs have been excluded. What is the percentage of people to be excluded? More than 99.9 per cent of India's population is excluded but the great agitation that is raised against this tax seems to suggest that a good bit of the population is against this tax. Let us consider what the major objections to this tax are. First, it was considered in Britain and dropped; it does not exist in any other country which is big. It exists in small countries—Netherlands and Sweden. Evaluation of wealth is such a cumbersome process that in UK it was estimated that it will take about 2½ years. Assuming there is this difficulty is that a ground for rejecting it? There were other grounds which were advanced against this tax by so prominent and respected a leader as Shri Rajagopalachari. He has said that this tax has been taken straight from academical thought to actual imposition in India. All taxes have first to belong to academical thought. It has also been stated that sacred secrets of families will have to be opened up. The income-tax already rips open many of our secrets. We have gradually reconciled ourselves to that thing. It is also stated that this tax will lead to greater evasion. Most taxes lead to evasion of some kind or the other. That is only an argument for making the collection machinery still tighter.

The argument has been advanced that it will lead to depreciation, depletion and deletion of capital and that it will lead to disintegration of wealth in forms such as jewellery and precious stones and so on. We have been given these arguments at every stage when direct personal taxation has been imposed; they are not new. The rate of income-tax being so very high, still we find that capital formation has in no way suffered. I would like to ask anybody who opposes this Bill on the ground that it slows down capital formation or that it destroys capital formation, where has the capital formation at all been checked? These are grounds which I am not prepared to accept. Also, it has been stated on one hand that the yield

from this tax will be negligible, and on the other hand it is stated that if this tax is imposed capitalists would rush to the markets to sell their properties and there will be a collapse of security markets, a collapse of property markets. How these two things can be reconciled, I cannot understand. I think the incidence is estimated at Rs. 15 crores and it may be Rs. 20 crores. We are collecting from income-tax a much larger figure and there is no collapse of the security market or property market. Why should an addition of Rs. 20 crores lead to it, I really cannot understand.

It has also been argued that the Finance Minister has taken this Wealth Tax from Prof. Kaldor's suggestion without implementing his other suggestion in regard to the integrated system of taxation, namely that there should be only 45 per cent maximum income-tax. It is said that some relief has been given but the other part of Kaldor's report has not been implemented. I submit that that is not an argument which can be legitimately advanced. Today, the State's requirement of money is so acute that we cannot permit any form of acadamic arguments to stand in the way of collection of this tax.

But, I must admit that there are certain valid objections to the Wealth Tax. First, for instance, the evaluation of wealth calls for extraordinary administrative machinery. That point cannot be gainsaid; it does call for it, and there may be inquisitorial investigations into the privacy of domestic affairs. On the tact and the manner in which the income-tax authorities implement the provisions of the Wealth Tax will largely depend the success of this tax. But these are incidents connected with the collection of most of the taxes and they cannot be made a ground for rejecting the Bill.

At the same time, I do believe that some method of simplifying evaluation will have to be invented. The hon. Finance Minister has said that in case of firms and other companies it may be possible to take the balance-sheets for purposes of evaluation. The hon. speaker who spoke before me said that balance-sheets do not represent a correct state of the financial position of the concern. It is quite true. But, I am afraid, even then the balance-sheets will have to be the basis for calculating the wealth of firms and companies. They may be adjusted to a certain extent, for instance, where they reflect immovable properties at a very low valuation because the costs of those properties have been written off. For instance, it is said that in the Bank of England balance-sheet the building of the Bank of England is valued only at one pound. That may be so. All these things can be adjusted but, by and large, balance-sheets will have to remain the basis for evaluation for this type of assessment, unless the income-tax authorities want to launch themselves into serious trouble.

But matters like this will have also to be gone into further for simplification of evaluation procedure. For instance, in the case of valuing an immovable property I am sure it is not necessary every time to refer such matters to two people or go through the very tedious and cumbersome process of evaluation. Why can't we invent some sort of a method by which we may divide the immovable properties into half a dozen categories, like first class, second class, third class and so on, and have a rough and ready yardstick? You can say that it is so many rupees per cubic foot for a first class building and so on. In the Bombay City such a yardstick is applied; they have fixed a particular amount per cubic foot for a flat type building, so many rupees for a second type of building and so on for purposes of evaluation. Some such forms for simplifying evaluation will have to be decided upon. It may be that they will not be perfect, but they will serve a practical purpose. If, by and large, they serve the purpose I am not very keen if a little bit of wealth tax is

[Shri Naushir Bharucha]

evaded here and there That is bound to happen

I will go even to the extent of saying that in the first few years let the wealth tax be administered generously If there are some sort of evasions, unless they are very serious do not bother about them, collect the tax in a rough and ready way, do not get entangled too much in evaluation processes

There is also some legitimate complaint made in regard to the shareholders The hon Finance Minister has already referred that it is open to the Select Committee to consider whether in case of new companies, where the concession is being extended to them on account of their being new, the concession should also be extened-ed to the shareholders I will go a step further and say, if you are going to collect wealth tax the principle of it should be that you must collect it from wealthy people only Who owns the shares in the thousands of limited companies? The middle-class people They own the shares I, therefore, plead on behalf of the middle-classes who own shares that the system of refund should be incorporated in the Bill They should be given refund of the wealth tax which they pay, just as we get refund in case of income-tax If you are going to tax companies, by all means they must be taxed, otherwise there will be evasions in the form of people creating new companies and so on But I do make this plea that if a company pays the wealth tax ultimately it goes out of the dividends of the shareholders and, therefore, the middle-class men must get some relief, otherwise, it will mean that the wealth tax is being imposed not only on the rich but on the middle-classes as well I do hope that this point will be looked into by the hon Finance Minister and the Select Committee

I am glad the hon Minister has said that new companies may be exempted for five years That is a concession sufficient to repudiate any argument that this wealth tax will act as a deterrent to fresh investments

The conclusion, therefore, is that even though this may be a novel form of taxation, if it is administered wisely and well and certain directions are issued by the Central Board of Revenue, I am inclined to think that this may be a good tax by and large and a good resource which we can tap at will Our collecting a larger amount from wealth tax will not necessarily involve additional collection charges

As I said, Sir, this tax does not touch 99 9 per cent of the population The rich people must now reconcile themselves to this idea that socialistic pattern means that their wealth is not merely for exploitation for their own benefit but that they hold it in the nature of a trust partly for the benefit of the society at large also The rich will have to soon get themselves reconciled to this idea Why should they grumble if at the stage of 80 lakhs the entire income is taken away? I repeat, Sir, if a person has got so much wealth he owes a duty to the society to see that the income derived from that wealth goes to the benefit of the society

Already the poorer sections of the community are paying through their nose This year we have taxed to the tune of Rs 93 crores and a large portion will have to be borne by the poor people and the middle-class people When they contribute so much to financing the administration of our country, I do not see any reason why the rich people should grumble about the wealth tax

There may be some difficulties experienced here and there There may be some defects in the beginning and we might find the working of this measure defective here and there But that does not alter the situation The wealth tax is not only a socialistic

measure; it is a necessity which should have come long ago. I whole-heartedly support the Bill I hope that the suggestions that have been made by many hon Members here will be borne in mind by the Select Committee and the Bill will emerge in such an improved way that most of the pin-pricks will disappear and yet the State will have benefit of the yield which we expect from the wealth-tax

Shri Pocker Sahib (Manjeri) Mr Chairman, Sir, I was really very much surprised at the criticism levelled against the nature of the agitation against the new taxes by the public

The hon Minister assumed that any criticism of the new taxes can legitimately come only from the people who are directly affected, whose pockets are really touched by the new taxes This is an assumption which very much surprised me It is the right of every citizen to see that the taxes imposed are in the general interests of the public and that they are in the best interests of the proper administration of the country Therefore to assume that it is only for those well-to do people who are directly affected by this wealth tax that are entitled to agitate against this measure and the common man whose pocket is not directly touched by this wealth tax is not entitled to do so This assumption is absolutely wrong I do submit that the hon Finance Minister should have thought it as the legitimate right of even the poorest man in the country to agitate against such measures in the best way he can The question is not to be decided on the criterion of the kind of tax which touches the pockets of particular individuals

His further assumption that there is no real agitation by the people who are directly affected, namely the wealthy people is, I fear, absolutely wrong Everybody knows that this agitation has been going on a very wide scale in the country and everywhere there is a very great discontent expressed against the nature of the new taxes imposed by the Government including this Wealth tax and the wealthy people who are affected by these measures are also agitated very seriously against I have not the least doubt that all sections of the people are really represented in the agitation against these new taxes including this Wealth tax Therefore, I would request the hon Minister not to view the agitation from that point of view

So far as this measure on the merits is concerned, I do submit that I agree with the principle that you have to tap the wealthy people in order to recoup the finances of the country It is the wealthier people that ought to be taxed and we ought to get as much reasonable amount from them as it is practicable I do also agree that whatever measures we take must be in consonance with the principle that has been adopted, namely that our march is towards the socialistic pattern, but I do oppose this particular measure on more than one ground This measure does not achieve the purpose for which a tax measure is directed, namely, the realization of revenue I have stated that it is the wealthy people that ought to be tapped and it is from them that we must try to recoup the finances of the country But this is the worst method that can be adopted to realize anything from the wealthy people

As I understood from the speech of the hon Finance Minister, he seems to have in mind some bargain by which the wealthy people are partly exempted from the income-tax on higher income They are given substantial relief so far as the income-tax on the higher income is concerned and in order to pacify the public, though we have exempted the wealthier people from higher income-tax, we are taxing on the very corpus, instead of the income It is in that way that the bargain seems to have been struck. I am afraid that in spite of all his experience as a businessman and a successful businessman, he has struck a very bad bargain from the point of view of the State The State will

[Shri Pocker Sahib]

certainly be a loser by this bargain. I am absolutely certain that in the long run this Wealth tax which is sought to be imposed as a compensation against the relief which is given to the wealthy people as regards the income-tax on higher income will go very badly against the State.

The very idea of assessing the wealth of the people particularly of the richer type is really a fantastic idea. I do say that it will be an impossibility for you to get at the right estimate of the wealthy people, of individuals or families or companies. Of course, there may be cases in which it can be assessed by means of records that are available, as, for instance where an individual or family owns landed property, that cannot be concealed, but even in those cases when this idea of Wealth-Tax has come into being or where the people know that they are going to be deprived of some percentage of their wealth, certainly all kinds of measures would have been adopted and in order to conceal that, it is given such a shape as to escape the assessment and there are so many loopholes in the Act itself Therefore, I say it is a very unwise measure even as regards that part of the wealth which may be proved by record and which cannot be concealed ordinarily.

Then, so far as cash and other movables are concerned it is physically impossible for anybody to assess it aright. It is said that the people here in this country are in the habit of investing a large portion of their wealth in jewellery. It is so, I do admit. But to go to the extent of catching the jewels which a family possesses is something beyond the possibility of the Government or anybody.

I would also like to say that this measure will make the people who are already habituated to evasion of tax more dishonest. This is one of the methods of making them more dishonest and we should not adopt such a method. Of course, income-tax in respect of which relief is being given is also not a matter in which there is no method of evasion. There is evasion no doubt, but it has been working We have to take as much efforts as possible to defeat their methods of evasion. To give up that method and to resort to this wealth-tax is really very unprofitable and very bad. Therefore, I would say that the relief that is sought to be given in respect of higher income-tax should not be given and this wealth-tax should not be imposed. This Bill should be dropped. My submission is that apart from this evasion of tax, there will be no incentive to earn wealth also. After all, wealthy people are as much a necessity to the country as anybody else in various ways. So, we must encourage people to earn more wealth and we should not discourage them This measure will discourage people from amassing wealth. If the wealth is amassed, after all what is derived from wealth is income which can be taxed When the wealth is invested in various ways, income will be derived and the Government should catch at that income to as much an extent as possible So, I agree with those who say that the people who have got wealth should be allowed to earn more They should be encouraged to make more profit and the Government should realise as much money as possible out of that profit and not resort to methods like these which will increase the harassment of the people Therefore, I hope that this measure will be dropped

Shri Mohamed Imam (Chitaldrug): Just now the Speaker announced that both the Wealth-tax Bill and the Expenditure-tax Bill will be taken together and 8 hours would be allotted.

Mr. Chairman: That has not been the opinion of the House.

Shri Mohamed Imam: So, only 4 hours will be set apart for this Bill.

Mr. Chairman: That is right.

Shri Shree Narayan Das (Darbhanga): I whole-heartedly support

this measure. The hon. Finance Minister fully deserves the congratulations of this House as well as the congratulations of the poor people residing in India for the bold step that he has taken with regard to the reforms he has brought into the taxation system in India. When hon. Members from time to time drew the attention of the Government that certain steps should be taken to remove the great gap existing between the rich and the poor in the country, everytime vested interests came forward with arguments that if such taxes were levied, there would be no incentive for saving and earning. In a country like India, when we have

14-38 hrs.

[MR. DEPUTY-SPEAKER *in the Chair.*]

adopted a socialist pattern of society as our objective, I think anyone desiring the prosperity of this country cannot shut his eyes to the great extremes of poverty and richness existing in India. Taxes like the wealth-tax and the expenditure-tax should have been levied long long ago, just after the country attained independence. This would have convinced the people that the party in power is really desirous of improving the lot of the poorest in the country; but, better late than never. I think the name of our hon. Finance Minister will go down in the history of Indian finance as the man who was bold enough to take such steps and to disappoint such of our countrymen who, though not large in number, nevertheless exercise some influence either through the papers or other channels. Therefore, in the history of Indian finance and taxation, this day will be long remembered and remembered with gratitude towards our hon. Finance Minister.

There are three considerations on which we have to base our arguments. Here the objectives are laudable. There is great necessity for this measure. It is desirable that we should remove the great gap existing between the rich and the poor. Some of our friends have just expressed their opinion that the working of this measure will not be feasible, and there will be great many difficulties. Some hon. Members belonging to the Congress Party also have said that there would be harassment in executing this measure. But I think that any tax that is levied may lead to harassment of some people; that may be due to the defects in the administrative set-up, which can be easily removed. Here the principle is important. We are having before us the ideal of a socialist pattern and the question whether we will have to wait for a long time for the introduction of such measures. I think this Bill has come at the right time. Our objective of socialist pattern demands it; the fulfilment of the targets of the Second Five Year Plan necessitates this measure. Professor Kaldor has said that the additional burden that has been imposed or is going to be imposed either through taxation or through a rise in prices on the broad masses of population should be complemented by an efficient system of progressive taxation on the small minority of well-to-do people in India, who number only 1 per cent. of the population. The hon. Minister has said that the tax system in India is an old system and that it requires some drastic reforms. By the levy of the Wealth-tax and the Expenditure-tax and the Capital gains tax which has already been introduced, we will have an integrated and coherent tax system which will avoid all the loopholes of evasion or avoidance of tax. We know that in our country and in other countries also, the marginal tax on income is high and it has been observed and found that those on whom these taxes are imposed take recourse to so many devices to avoid the tax or evade taxation. I think, by the introduction of these taxes, avoidance and evasion of taxes will not be there and the organisation that would be entrusted with the collection of these taxes will find it easy. It is good that the Income-tax department is going to be entrusted with the assessment and collection of these taxes and I think there will be less opportunity for those anti-social elements who, instead of giving their best for the cause of the country try to avoid taxation.

[Shri Shree Narayan Das]

I think the Opposition in this House does not function as it should function. Every time they criticise whether the measure is good or bad They try to find loopholes in every measure coming from this side This Wealth-tax Bill has been welcomed by my hon friend Shri V P Nayar Even then, he was critical He thought that the Income-tax and Wealth tax would not be properly worked and the income from them would not be sufficient The fear in his mind was that the authority or organisation that would be entrusted with this work will not do their duty I think this is prejudging the case As we have observed in this House, we have criticised the Government and we have criticised the organisation that has been entrusted with the task of collecting Income-tax We have found lacunae The hon Minister said during the Budget session that he is trying his best to re-organise that organisation which is responsible for assessing and collecting this tax With that assurance I think that the Wealth tax and Expenditure tax will be collected properly and as much money as possible from these sources would be obtained by the Government and utilised for the fulfilment of the Second Plan It has been suggested by my hon friend Shri V P Nayar that there should be a separate team for these taxes I think that is unnecessary The very principle on which these integrated and coherent taxes have been suggested by Prof Kaldor and accepted by the Prime Minister would be destroyed We want them to be under one organisation We want that there should be less expenditure in the collection of the tax and in administration Therefore, it is necessary that the collection and assessment of these taxes should be handed over to the same authority or organisation as is entrusted with the assessment and collection of Income-tax

The vested interests who are going to be affected by these taxes say that such taxes are disincentives for capital formation I think every tax whether it is on wealth or on income is, to some extent, a disincentive But, we have to place two things before us. The object of taxation is to remove the great disparity in the social and economic field, economic field in this case Some tax may be a disincentive Nevertheless, it is necessary that the disparity between the rich and the poor, the great gap between the cottage and the mahal, should be removed It is necessary that the wealth that has accumulated should be lessened gradually even when the private sector remained We require them for some time There must be some incentive It was with this purpose that Prof Kaldor suggested that while introducing the Wealth tax and Expenditure tax, the marginal rate of taxation on income should be reduced to some extent Speaking for myself, I would suggest that the rate of taxation should be increased I have not worked out the whole scheme We have seen that after all the expenditure incurred in the First Plan and the heavy expenditure on the Second Plan, there has been some increase in national income At the time of the Budget discussion, we questioned the Prime Minister as to which sector of society this increase in national income has gone There are no statistics available to show whether this expenditure has benefited the lower class or the middle class or the higher class Generally we have seen that the rich have grown richer all these days The benefit of all the expenditure that we have made so far has gone mostly to the rich people We know that the taxes raised in our country at present is only 7 per cent of our national income During the five years that have elapsed, we have seen that the tax revenue has not increased This shows that the money that has gone into the pockets of the rich is there Sometimes they invest, sometimes, they do not invest. That is hoarded wealth If this Wealth tax is levied, the officers of the Government will get a chance to see where the hoarded wealth is.

It is necessary that this tax revenue which is 7 per cent should be raised

with the increase in national income. With the increase in national wealth, there must be an automatic increase in the tax revenue That is not happening In spite of the fact that we have levied so many duties on so many things, indirect taxes, and getting all the tax, the rich people are not fully taxed They have not been taxed according to their capacity to pay I think the rate given in the Bill is low I think after some experience is gained, we may increase it afterwards This is the first time that this tax has been imposed My personal opinion is that the rate should be increased The sooner the disparity between extreme richness and poverty is removed the better for our country and our society There will be less dissatisfaction and discontent and less of these strikes, etc The Taxation Enquiry Commission suggested that this great gap between the salary of the lowest group and the highest group should be removed as far as possible We have not taken any steps with regard to this I think the Finance Minister will take these steps to remove the gap between the incomes of the lowest and the highest That is also necessary It is all these things that lead to discontent lead to demands that there should be another pay commission and we have to resist it We do not resist it on principle We resist saying all these things should be considered in due time, we have to fulfil the Second Five Year Plan and after the national wealth has increased we will be in a better position to distribute it on an equitable basis

There is one point which is a matter of detail With regard to appearance before the wealth tax authorities by authorised representatives, I received some representation from some organisation I have not studied their viewpoint fully

Shri T. T. Krishnamachari: Income-tax practitioners

Shri Shree Narayan Das: Here it has been said in clause 44 of the Bill that assessees can appear before the wealth tax authority or Tribunal through legal practitioner or chartered accountants Chartered accountant and legal practitioner have been included, but income-tax practitioners have been excluded I think this matter deserves consideration, and if the Select Committee thinks it feasible and proper they may also be included.

I have nothing more to say I think the organisation is practically the same as the organisation of the Income-tax Department Matters of appeal, matters of valuation and other things connected with them have been provided for in the Bill

With these words, I whole-heartedly support this measure, and I hope that in proper time, if not by this Select Committee, the rate of this tax will increase so that the great gap that is existing may be brought to an end.

Shri Mohamed Imam I rise to support this Bill, and while supporting it I need not make a lengthy speech as it is going to be considered by the Select Committee

I support this Bill mainly on three grounds Firstly, it is in accordance with the socialistic principles to which all of us are wedded Secondly by passing such a measure I expect that the poor and the needy who are already oppressed by the appalling weight of taxation will get some relief if not now, at least in the future And thirdly, it is more or less a personal reason I am a Muslim, and Islamic principles lay down, and the *Koran* lays down that every person who can afford to pay and who is rich shall set apart every year 2½ per cent of his property Perhaps Mr Pocker knows this It is a mandate So, on these three grounds I support this new taxation measure, though we are in an era of indiscriminate taxation

It is a well known fact that ever since democracy dawned on us, every year has brought to us either new taxes or enhancement of old taxes, and it has also happened that these taxes have fallen mainly on the poor who can ill afford to pay But this tax seems to be in the right direction

[Shri Mohamed Imam]

because it is in accordance with the principle that taxes shall be paid only by those who can afford to pay and it shall be in accordance with their paying capacity

I know this wealth tax is not levied in many advanced countries England and America have not accepted this principle for reasons best known to them elves But I know the Finance Minister and the Ministry are always engaged in evolving and finding out new means of taxation, and perhaps I may say that to them this is an achievement I may sav that by introducing this tax India so far as taxation is concerned, is far advanced than many advanced countries

I know that in the beginning any new tax will cause serious misgivings We cannot predict what its effects and its implications will be, but we are all of us wedded to a certain policy though we form different groups The Congress is also wedded to a socialistic pattern of society which it discards now and then to suit its convenience The P S P and the Socialists are also wedded to socialism and I think our Communist friends also are wedded to socialism Perhaps it is Soviet sort of socialism So, it is in accordance with this principle that is existing in this House, and I think this tax and this measure will have an easy passage, and the Finance Minister is in a happy position

According to this socialistic principle, it is necessary that the rich shall part with a certain percentage of their wealth in favour of the poor The socialistic principle may be construed either way Either it contemplates the equalisation of wealth which is a more intense form of socialism, or it lays down that those who are happily placed and who are in a more fortunate position shall part with a reasonable portion of their wealth for the uplift of the poor and the needy So, it is on this ground, it is on this principle that I support this measure

Secondly, I think such a measure is necessary in order to give relief to the poor Very soon we will be faced with a series of new taxes, series of enhancements of present taxes They will come up in the Finance Bill Then I will have my say But what I want to say is this, that those taxes and the present taxation policy are such that they hit the common man more than the rich The limit of squeezability so far as the middle classes and the poor are concerned has been exhausted I think the time has come when the poor man and the middle classes cannot be burdened with any more taxes It is imperative that hereafter that some relaxation, some relief will have to be given, and hereafter taxes will have to be levied only on people who can afford to pay And the poor and the unhappy people should not be made to pay taxes

15 hrs

Taxation is the vital part or the central part of modern public finance It is true that to run a government and to carry on an administration, you must have recourse to taxation It is necessary that the people should be expected to contribute towards the cost of administration, in accordance with their paying capacity and in accordance with their earnings But what I am anxious about is this It is easy to pass a measure and levy a fresh tax But I am anxious that the proceeds of such tax are made use of wisely and judiciously

When fresh taxation is imposed, the Finance Minister will give us all kinds of assurances and say that the proceeds of the taxes will be utilised for the sake of the poor, he will assure us that the poor stand to gain, and they will be assured of social amenities But in the end we find that the proceeds of the revenue derived from the fresh taxation disappear somewhere, and the people do not actually stand to gain For the last ten years, we have been imposing fresh taxation, but I must say that the corresponding benefit conferred on the people is rather disproportionate and disappointing also The more the taxes that we have levied, the greater has

been the financial pressure, and the more the taxes to which we have had recourse, the greater has been the unsatisfactory state of our finances

So, it is necessary, whenever a new taxation measure is placed before this House, that the Finance Minister indicates to what purpose he is going to devote the revenue, whether he is going to devote it to providing amenities to the people, or to making education free and compulsory, or to providing free medical service or to give old age pension, or whether he is going to use it for bridging the gap or to wiping off the deficit

It has been our experience from the very beginning that the more the taxation, the greater has been the financial crisis, and the greater the deficit We, therefore, feel that all the extra income that would be derived will go towards increasing the cost of administration, towards filling up more jobs or to employing more persons, and it will not go towards providing amenities or benefits to the common man That is what I am afraid of

I have no objection to taxing the rich, I have no objection even to taxing them more But I am anxious that the extra revenue that is derived should be utilised for the benefit of the common man, and for his good

The Finance Minister, as I said a little while ago, will hold out the assurance that all these moneys will be diverted for the uplift of the common man But from previous experience, we find that many a time, this promise has not been fulfilled If the amount is not properly utilised, we feel that all our efforts have been in vain, and that the taxation measure has been not for the benefit of the persons who deserve it, but for the benefit of those that do not deserve it It may be a case of taking away something from Peter to pay Paul, which we all approve We can rob Peter to pay Paul, but if we rob Peter to pay some other Peter, I think it would be a very unsound and unwise policy too. I hope this will be borne in mind whenever the Finance Minister comes forward with new taxation proposals

As I said earlier, we are not against legitimate and reasonable taxation But we are only anxious that the moneys derived by way of such taxation should go towards improving the finances of our State and not for causing serious dislocation

In spite of the hundreds of taxes that have been levied, what is our financial position today? I am afraid a fathomless abyss has been created, which can never be bridged, or filled up

Now, various criticisms have been made It has been said that the wealth tax would retard the growth of industry, and the growth of wealth In fact, a certain amount of wealth is essential in every country In any country, there are people who are wealthy, who belong to the middle classes, who are traders, who are industrialists, and who are poor I do not know what the position is in Russia, perhaps, my Communist friends will enlighten me on this matter

This measure is not one which aims at the confiscation of wealth or the grabbing of wealth It does not aim at legalised robbery, as it is said sometimes It is, pure and simple, a reasonable measure which lays down that a person who is in a more fortunate position shall part with a portion of his wealth in the interests of the country

A good deal of anxiety was expressed about the collection of the tax I know a capital levy like this always involves problems of valuation, assessment and so on Many persons are not afraid so much of the tax as of the process and the hardships that they will have to undergo in regard to assessment I know that this is a tax which is new and which is of an experimental nature We, therefore, do not know what will be the effect. We do not know also what has happened in other countries, because very

[Shri Mohamed Imam]

few countries have levied this tax However, care must be taken to see that there is least harassment for the purposes of assessment Expert valuers are quite essential

We know of some unhappy incidents in connection with the income-tax collections, to which I shall refer at the appropriate occasion Here, I would like to suggest that a feeling should be created among the assessees that they are dealt with fairly and courteously As compared to other western countries, in India, in the Income-tax Department and also in other Departments of a similar nature the officers start with the presumption that everybody is an evader or a scoundrel, unless the contrary is proved

Shri V P Nayar It is a moderate presumption

Shri Mohamed Imam So the burden of proving that he is fair and honest lies upon the assessee, and in some cases even his frantic efforts to clear his character will not convince the assessing officer That is what many of us are afraid of And it may lead to further troubles also

For instance it has been mentioned that for valuation one has to produce one's property both movable and immovable

As regards jewels it may so happen that a person who comes to assess the property, may suspect that the assessee has concealed his jewels and other property underground So there is scope for harassment In fact it is this that has made people nervous So I appreciate the suggestion by an hon Member that in such cases it is better to have a judicial officer who will arrive at a fair valuation

Also, the creation of a separate department is necessary I know that it will involve extra expenditure But I do not like the idea of this department being tagged on to the present income-tax department which has been moving in a certain groove and which is wedded to certain policies Assessment of property and wealth requires quite a sound handling of the affairs. One must proceed on quite sympathetic grounds On the other hand, I know that the income-tax officers have been asked to see that a certain target is reached and they are more concerned to reach the target than to do justice. So I think that not only a new technique of assessment should be evolved, but expert valuers, who will be specially trained, should be appointed and people with impartial outlook must be appointed to assess the wealth

Shri V. P. Nayar. He wants to have the judiciary do it

Shri Mohamed Imam Yes

I will make one or two suggestions more It is proposed to tax companies I welcome the idea of the Finance Minister that a new company will not have to pay for the first five years during its infant stage At the same time, we are interested in the promotion of companies and we are anxious that industries should prosper It is our duty to give all encouragement and facilities to companies and to various industries While I have no objection to tax a company which is already well established which is on a sound footing and has been making profit, I think it is a matter for consideration whether we can tax the assets of a company till it is on a sound footing There are companies and companies which make profit but there are others which are still struggling and running at a loss even though years and years have elapsed So is it prudent and equitable to tax a company which is on tottering ground for years, which is unable to make both ends meet and support itself? So I feel that in the interest of the country and the development of industries, if we lay down a principle that a joint stock company, till it is on a sound footing, will be exempt from such tax it will go a long way to that objective

I need not take much more time I am only anxious that we must make

the best use of this opportunity I hope the introduction of this novel tax will give a new orientation to our financial policy Till now, it has been a case of indiscriminate taxation and of grabbing as much money as possible from all sections of people, irrespective of existing conditions, status or capacity I think hereafter the entire conception has to be changed Let them tax by all means, let them tax only those who can bear the burden of the tax

Secondly, when they tax, when they bring forward a new measure, let them give an assurance that all the proceeds thereby will go directly to benefit the common man and improve his status and earning capacity, and that it will not go somewhere else where we may think it is a waste

On these grounds, I support the motion

15 16 hrs

Shri Supakar (Sambalpur) Sir, I welcome this new venture of introducing a new system of taxation and I hope the Select Committee will take into consideration certain problems which will naturally arise out of this Bill

You know very well that this is the after-effect of a survey of the Indian tax system made by Prof Kaldor In calculating the amount likely to be realised from this tax and the number of assessees who are likely to be affected by it he bases his calculation on the income tax figures available in the country In this connection, I will refer to page 26 of his report (paragraph 37) where he states

> "In the absence of any direct statistics bearing on the value of various forms of property in India and its distribution according to size groups, any estimate of the yield of wealth tax can only be undertaken by a rough method of working backwards from income By capitalising the profits of firms, partnerships and individual business and dividened income of companies, a rough estimate of the total value of wealth and its size distribution can be obtained".

On this basis, he calcuates the figure and makes an addition of 10 per cent for non-income earning capital, and arrives at the final figure I believe that in calculating the expectation of returns at the figure of Rs 15 crores, the Finance Minister must have relied on this process I submit that this is taking the wrong view of things, it is as if he would take a bucket of milk and calculate from it the market value of cows and she-buffaloes which yield the milk, but many of whom may not be in a position to yield any milk at all

The problem is not so much as to by what percentage the Finance Minister does err or how much more or how much less we are likely to expect from this source of taxation, but the greater human problem is are you going to tackle wealth which does not yield any income or which yields only an insufficient amount of income on the same basis as you are dealing with the wealth which yields a reasonable income and which has a reasonable market value at all times?

You know that big houses and other non-agricultural properties in big cities and towns have a certain percentage of rent assessed on the basis of their value They yield good rent Not only that, there is always a good market and they frequently pass hands But, what about other properties which are situated in the interior of the country, having a very large value but yielding very little income? There are also properties which are practically unsaleable or have no ready market at all In such cases, are you going to treat them in the same way as the properties in large cities and towns, which have both a good annual yield and also a ready market, or, are you going to make a special provision for such properties in order to tax them on a more equitable basis?

[Shri Supakar]

The next point is: as soon as there is a demand there is some time-limit for the payment of the tax and if the tax is not paid within that time, certain steps are taken It is just possible that in many cases—and probably in thousands and thousands of cases—the owner has no income and the property has no ready market In such cases there should be a provision to ensure that either Government is ready to purchase that property at a reasonable price and affords the owner an opportunity to redeem it or buy it back within a reasonable time or provide some such safeguard so that such properties may not be under-sold Equitable considerations demand that proper consideration should be given to such properties which though of high value have no market or, rather, no ready market and where the owner has no income properly so-called Such cases should be provided for in the Bill when it emerges out of the Select Committee

I have no other suggestions to make and I hope that the Select Committee will take into consideration all these matters

Shri Sadhan Gupta (Calcutta—East) Mr Deputy-Speaker, Sir, we are discussing a Bill here which had raised high hopes when it was merely a proposal When the Finance Minister announced during his Budget speech that a Wealth-tax and an Expenditure Tax would be imposed for the first time in this country, many people in the country did heave a sigh of relief Not many of us, not many people in the country then realised that this could hardly be a relief to them and that the Finance Minister hardly meant what he said

Let us remember the background in which we are considering these taxes We have the background of an impoverished people who have been asked to bear an intolerable burden of taxes in order to take our country through the Second Plan First of all, through British oppression and then through many kinds of mismanagement our country is growing poorer and poorer and, as it grows poor every year, we have to pay taxes on all our necessities, on everything you can think of, on which the common people have to incur expenditure, cloth, match-box, mustard oil and what not It is in this context that expectations were raised when this Wealth-tax was promised to us in the Budget

Now, what do we find here? Looking at clause 3 of the Bill, we find that the wealth-tax is to be charged on the net wealth and so on and so forth But, when we look at the Schedule, the first disappointment comes Up to Rs 2 lakhs, there is total exemption Even after that the charge is only ½ per cent and the maximum rate is not more than 1½ per cent Let us not forget that we in this country who are bearing a crushing burden of taxes—the common people of this country—have an aversion for people who have amassed fabulous wealth, in most cases without deserving it Who hold the wealth in this country? The big landlords who oppressed their tenants and wrung out huge sums of money through the exploitation of the tenants, ex-Rulers of States who have fat privy purses quite undeservedly and who had by age-long oppression of their subjects, been able to gather fabulous fortunes It is said—I do not know with what truth—that the richest among them has a fortune of about Rs 500 crores It is said a thousand; I do not know Both are alike to me. The point is that we would have expected

Mr. Deputy-Speaker: It makes very material difference to the man who possesses that

Shri Sadhan Gupta: I do not know because it is all equal for me

People in this country who are bearing this crushing burden of taxes might well expect that other people who had amassed large amounts of wealth, who obviously did not need

all that they have amassed and will not need that for generations to come, should at least part with the surplus wealth to the fullest extent in order to help our country tide over our difficulties, if not to give the poorer sections of the people some money from their pockets That has not been done We would clearly suggest that in the case of very huge concentrations of wealth, this tax should have been utilised for the purpose of mopping up the entire amount of wealth, let say, over a certain period so that the entire wealth should have been taken away in taxes Even in capitalist societies something like capital levy is known A capital levy has been introduced in some cases Why should not we, by way of this wealth tax, impose a capital levy on very high concentrations of wealth?

At what concentration we should take away the full wealth can be decided with reference to the circumstances of the case and so forth But, there is no doubt that there are quite a number of individuals—and what is more—quite a heavy concentration of wealth in our country which would justify the entire taking away of the wealth by way of this capital levy This is what we would have expected The Finance Minister knows better than I what fabulous amount of revenue that could have brought It appears that it would have brought at least a revenue which would supply a substantial portion of what we would require for fulfilling our Second Plan Incidentally, it would enable the Finance Minister to grant the much needed relief to the common people

What is happening with the taxes on the common people? Not only are they made to pay When you impose a tax of an anna, the price of an essential commodity goes up by two or three or even five annas I take it that the Finance Minister will continue to impose these excise duties in future years also throughout this Plan and as a result, there is no doubt that the prices will shoot up If we could have taken away this surplus wealth, we could have checked the rise of prices apart from giving the common people relief from the tax burden That is one aspect of it

The concentration of wealth has not been broken which ought to have been done by way of this tax Secondly, through loop holes, exemptions and exclusions, it is quite likely that much of the wealth will either be evaded from tax or avoided You know the distinction between evading and avoiding Evasion pre-supposes some kind of guilty intent—evading an obligation, that is to say, not carrying out an obligation which, otherwise, he would have had to carry out Avoiding means to get clear of the law by availing the loop-holes which the law itself provides

If we look at clause 4 of the Bill, there is in the third sub-clause a reference to heirlooms but I am not making much of it Let us look at clause 6 It refers to domestic animals and furniture, household utensils, wearing apparel, jewellery and other articles intended for the personal or household use of the assessee subject to a maximum of Rs 25,000 in value The assessee will be there There will be other dependents of his Through the instrumentality of this sub-clause, he may be able to provide not only himself but also others with very valuable articles and thereby escape a large part of his liability Let us look at sub-clause 9 It is even more serious and even more an apparatus for those who want to avoid the tax Ten year treasury savings deposit certificates, fifteen year annuity certificates, deposits in post office saving banks, post office cash certificates and post office national savings certificates held by the assessee—it refers to them That way a large part of the income may be transformed into wealth of this kind which would be free from tax It may be said that the income from this source will be liable to taxation but that is a different matter and the point is that whatever the tax on income may be, a part of it will be left out and he would as at present, be enabled to avoid wealth tax by converting his present income into those different kinds of invest-

[Shri Sadhan Gupta]

ments In some cases, there is a limit beyond which you cannot invest For instance, in national savings certificates, I believe there is a limit of Rs. 50,000 But an assessee may have a number of people around him He can buy national savings certificates—Rs. 50,000 for his wife, another sum for his children, yet another in the name of dependents, *benami* and what not. That way he can take away lakhs of rupees from the purview of the wealth tax

I do not know whether in the case of other things mentioned—treasury savings deposit certificates and annuity certificates, there is any limit Even if there is a limit, there are ways of avoiding those limits and if there is no limit, there is no restriction on the amount of wealth you can transform into non-taxable wealth Therefore, if there is any case for exemption, those exemptions should be granted only up to a certain amount and it should not be carried to the extent of exempting the whole amount If you do it, then, you will possibly, instead of taking a tax on wealth, succeed in diverting wealth to these channels

These are the loop-holes by which much of the tax on wealth may be avoided by those who would otherwise have to pay it I want to draw the attention of the House to the case of exemption of foreign assets of non-resident companies There are many nefarious practices practised by these people The other day a certain gentleman who works in a very respectable European firm in quite a high capacity gave me certain instances of how these non-resident companies cheat our country of huge amounts of foreign exchange by showing transactions whereby the branches here act as so-called agents of those companies They buy on behalf of these companies, say tea or similar articles, and only deduct an agency commission They buy tea, say at Rs 5 a pound, take an agency commission of two annas a pound and they show Rs. 4-14-0 as having been paid by their parent company at home That way we lose our foreign exchange and, obviously, in the case of the wealth tax the assets will be shown as foreign assets, whatever is bought will be shown as foreign assets

Similarly, there may be manipulations in other cases also to convert what should be taxable in our country into foreign assets and thereby deprive us not only of foreign exchange but also of our legitimate share of the tax on wealth Therefore, this matter should be very well looked into by the Select Committee and suitable amendments should be made to plug such loop holes

In conclusion, I want to say that the Select Committee of this House should keep in mind the overwhelming desire of the people, the overwhelming demand of the people of the country that concentration of wealth should be broken up Therefore, I hope the Select Committee will evolve some formula by which the entire concentration of wealth at the highest levels may be taken away through this wealth tax I also hope that other loopholes will be well plugged and that way this Bill which is absolutely useless as it stands today will be made into an instrument which will really serve the people, which will really serve to relieve the common people from an intolerable burden of taxes

My only fear about the success of the Select Committee is that the Finance Minister has already been going about promising businessmen so-called adjustments in these taxes I do not find any reason for adjustments in these taxes; of course, minor adjustments you have to make because there may be unforeseen anomalies here and there, but there is certainly no case for an adjustment in the principle of the tax, namely, that the concentration of wealth must be broken up Therefore, the tax at the highest levels should be at the highest rates; 1½ per cent is nothing at all at the highest level, it should be one hundred per cent and as you go down it must be graduated

Mr. Deputy-Speaker: Could there be a tax then?

Shri Sadhan Gupta: It can be a capital levy There is nothing absurd about it Look at the expenditure tax proposed by the Finance Minister and you will find a tax of hundred per cent at the highest level Therefore, there is nothing absurd about it At the highest level, I repeat, it should be a hundred per cent It would be a capital levy but let it break the concentration of wealth at the highest levels At the lower levels I have no objection to the rate being half per cent, one per cent or even one and a half per cent, but at the highest level it should certainly be one hundred per cent

Shri V Raju (Visakhapatnam) Sir the whole House has, I believe, with a few exceptions, congratulated the Government on introducing this measure of legislation We will be able to take up the Bill clause-by-clause after it returns from the Select Committee but pending the opportunity and the right of altering the Bill being given to the Members of this House, I would like to say a few words of recommendation to the Select Committee that is meeting in a few days' time

I find, with my knowledge of legal procedure, that the drafting of the Bill as such has provided for many loop holes for the evasion of the tax contemplated These loopholes necessarily have to be plugged, and I feel that the Finance Minister and the Finance Department in drafting the Bill itself may to some extent be responsible—when I use the word 'responsible' I mean that they may have been lenient in their approach—for the provisions of the Bill militate against the purpose of the Bill itself

Under clauses 4 and 5 of the Bill there are possibilities of much misunderstanding Under clause 5 subclause (1) of the Bill the assessee shall be exempt from paying the tax in the event of the property being held under a trust and a trust has been defined as a religious institution or for charitable purposes etc

So far as religious institutions are concerned, except in southern India—that is, in the State of Madras and now in Andhra Pradesh also—most temples are under the management of private individuals with no control, and under the provisions of the Constitution where religious observances are given complete freedom any interference in this direction would immediately be raised in a court of law as militating against one's right of worship

I know that in the State of Kerala the big Padmanabhaswami temple is in the charge of the previous ruling family There is also the Syrian and Catholic church which has large assets Outside southern India also there are huge trust properties where the trustees are virtually the owners of the properties enjoying the benefits of the properties As far as I know they are most irreligious in their ways of expenditure Of course, I know there may be good religious trustees but there are quite a few who even gamble and drink The Hindu religion, I know is rather flexible in this respect I do not want to discuss metaphysics here, but we have a system which allows us to equal good and evil on the basis of the assessment of the mind Therefore, religious trustees also can do whatever they like Of course, I know Islam and Christianity have the concept of evil, but Hinduism is more flexible in this direction If you take provision by provision

Pandit Govind Malavia (Sultanpur) How can everybody be a Hindu?

Shri V Raju. That is true I happen to be born one That is about all

Apart from the question of religious assets, there is the question of charitable assets What do we mean 'by charitable purposes'? I know that in the City of Bombay in certain areas the feeding of pigeons is considered a charitable purpose Huge monies have been left for feeding of pigeons in the City of Bombay by certain pious individuals, certain Gujeratis and Marwaris Today assets of this nature have grown into crores of rupees Here also the successors of these

[Shri V Raju]

charitable institutions are to be completely exempt from the purview of this tax

If you go stage by stage in the exemptions, I can point out to you any number of contradictions You get a contradiction between exemption in sub-clause (iii) of clause 5 and exemption in sub-clause (vi) of the same clause In sub-clause (iii) we are told that jewellery or heirlooms is to be exempted In sub-clause (vi) we are told that jewellery valued only up to Rs 25,000 will be exempted Who owns the heirlooms? Is it the ex-Maharajahs or zamindars of this country or do the business tycoons of India the newly created aristocracy also own heirlooms? I am surprised that such a provision should have been made by the Congress Party which talks of socialism and the first essence of socialism is that you have necessarily a policy of curtailing privilege and bring about a situation of equality in terms of birth rights if not in any other direction Therefore the concept of 'heirloom' or collections, works of art, books and so on, are to say the least loopholes through which wealth can be collected by individuals and this tax is completely negatived

Shri T. T. Krishnamachari: I do not think there is any particular value in books

Shri V Raju I do not know about 'books' There may be a certain argument brought up that if we do not exempt art and if the rich do not buy artistic objects, paintings, pieces of sculpture etc, who will look after the poor starving artists? I am sure some such arguments may also be put forward, but if all the artists of the world when they were impoverished and those who were particularly starving during their life-time, if they were able to sell some of their art during their life-time it would have made a difference I do not think that the money incentive has created art as such For example in this country art has been created from a religious point, and mostly the works of art in this country have been the creations of saints or Sanyasis who worked for the creation of religious motives Therefore, to say that the modern artist creates for the purpose of selling as such, I think, is a direct insult to the concept of creativity in a community

If you go down the exemption list, you will find that at all stages Government has allowed the richer classes to use these forms of exemption and escape from the tax

The last sub-clause is, I believe, the greatest loophole that would be used by the ex-ruling princes of this country

> "Any deposit made by the assessee with the Government or in any security of the Government or of a local authority not specified in clause (ix) which the Central Government may, by notification in the Official Gazette, exempt from wealth tax"

From my own State of Andhra Pradesh, we have a very old and venerable gentleman who was at one time supposed to be the world's richest miser, he is supposed to have at least a thousand crores of rupees I am given to understand that he has in Government securities alone something like Rs 150 crores—I am subject to correction by the Finance Minister or whoever may be in the know of this Under this sub-clause huge deposits made overnight by covenant or contract with the Central Government or the Home Ministry or the Ex-Political Department by the ex-rulers can be completely exempted from taxation This is an instance as far as my State is concerned But throughout India many of these ex-princes have large assets which can be valued by the Government What is the capital value of the asset? In valuing the wealth of the Nizam, I think he gets Rs 50 lakhs per annum from the Political Department or from the Home Ministry What is the value of this asset? Does it come under the head pension? If so it is to be exempted If it is not

a pension and it is a covenant between the Azaf Jah family and the Government of India, at what rate do you capitalize the Rs. 50 lakhs that is going to be provided to this one family that is there in the South? Rs. 50 lakhs x 20 times means Rs. 10 crores. These are some of the problems that are to be clearly understood by all of us when we go into the question of these assets.

Then again the same sub-clause ends by saying:

"Provided that the value of any deposit or security so exempted shall be included in computing the net wealth of an assessee."

Then Clause 2(n) reads as follows:

" 'Net wealth' means the amount by which the aggregate value computed in accordance with the provisions of this Act of all the assets, wherever located, belonging to the assessee on the valuation date, including assets required to be included in his net wealth as on that date under this Act, is in excess of the aggregate value of all the debts owed by the assessee on the valuation date other than debts which under section 6 are not to be taken into account"

If you read both of these together, it is possible for an assessee to have two types of wealth Wealth 'A' taxable and a different set of assets which we may term 'B' which are exempt from taxation Yet the value of the exempted items shall be taken into consideration in valuing the asset 'A' For example, if I have a lakh of rupees savings certificates and borrow Rs 90,000 from a bank on the savings certificates, that sum that is borrowed on asset 'A' can be offset against the value of property which is then subject to taxation and a very easy method of tax evasion is available for the people

From purely legal standards the so-called asset, value, after taking into consideration of the interest on the debt can be incurred against the property which in turn is subject to taxation under this Wealth tax. This anomaly is to be completely corrected.

All property which is subject to exemption, all such assets and liabilities should not be allowed to encumber property which is subject to tax, for by clubbing of property which can be encumbered and property which is free from encumbrance and subject to the tax there will be a large scope for evasion.

Then in clause 6 which has to be read in conjunction with sub-section (n) of clause 2, you will find that in the explanation No 2 very significant words have been used

It says,

"A company shall be deemed to be resident in India from the year ending on the valuation date if during that year—here is the interesting part of it—the control and management of its affairs is situated wholly in India"

The words used are "control and management" and then it is qualified by the term "wholly" meaning thereby, for instance, if any Indian concern had amalgamation with a European, American or British concern, the word "wholly" would facilitate that company in saying that it is not wholly managed in India When we use the words "control and management", what do we mean by "control"? The word 'control' can be stretched in any direction Any financial liability by any company leads to control. Suppose I take a patent .

16 hrs.

Mr. Deputy-Speaker: Is the hon Member likely to take some more time?

Shri V. Raju: Yes; about five minutes more

Mr. Deputy-Speaker: Then we have to stop the discussion at this stage and have the division