PROPERTY TAXES ACROSS G20 COUNTRIES

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The State shall, in particular, direct its policy towards securing that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

Article 39, Directive Principles of State Policy, Constitution of India

With a total tax-GDP ratio of 15.5 % (as of 2009-10), India has one of the lowest tax bases among G20 countries (beating only Mexico and Indonesia). In addition to BRICS countries like Brazil (25.4 %), Russia (22.9 %), China (18.9 %) and South Africa (26.5 %); other developing countries like Argentina (24.7 %) and Turkey (21.1 %) also perform better than India. Needless to add that all developed G20 countries perform much better with tax-GDP ratio figures as high as 28.7 % (for Italy). Further, with direct Taxes to total taxes ratio of only 37.7 % (2009-10) and the highest marginal Income tax rate at 30 %, leaves a lot to be desired, especially in terms of *progressivity* of its tax system.

In order to expand the tax 'base' in India in a *progressive* manner, new avenues within Direct Taxes have to be explored. Unlike Indirect Taxes, Direct Taxes are linked to the tax-payer's ability to pay and hence are considered to be progressive.

KEY FINDINGS

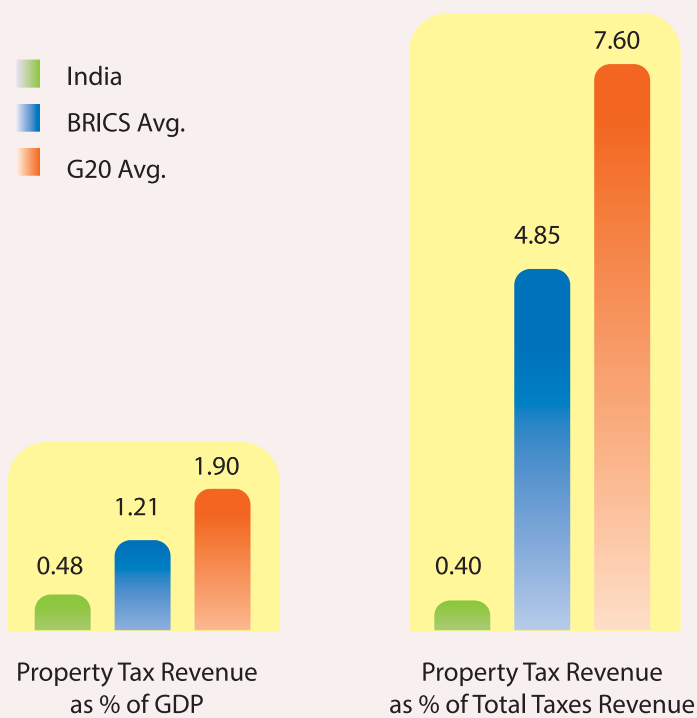
- **Progressivity of tax structure**: With Direct Tax share of 37.7 % in total taxes, India's tax 'structure' is perceived to be regressive. Even developing countries like South Africa (57.5 %), Indonesia (55.85 %) and Russia (41.3 %) have a more *progressive* tax 'structure', in terms of the contribution of Direct Taxes to total tax revenue. All developed countries that are part of the G20 have greater share of Direct Taxes in their total taxes than India, with figures as high as 75.8 % for USA.

- **Property Taxes**: Property Taxes contributed, on an average, around 15.1 % (USA), 5.8 % (South Africa), 5.1 % (China), 4.87 % (Russia) and 4.25 % (Brazil) to total taxes over the period 2000 to 2007-08. However, for India, the contribution has stagnated at around 0.44 % for years. China in fact has started using Property Tax as an important tool for achieving progressivity in its tax structure lately with the share touching as high as 10.3 % for the year 2007.

- **Property Taxes to GDP ratio**: Argentina (2.9 %), China (1.7 %), South Africa (1.4 %), Brazil (1.3 %), Russia (1.2 %), and Indonesia (0.57 %) are performing much better than India whose Property Tax to GDP ratio of 0.48 % (as of 2009-10), is one of the lowest amongst G20 countries.

- Property Taxes include tax on wealth, tax on immovable property and estate, inheritance and gift tax.

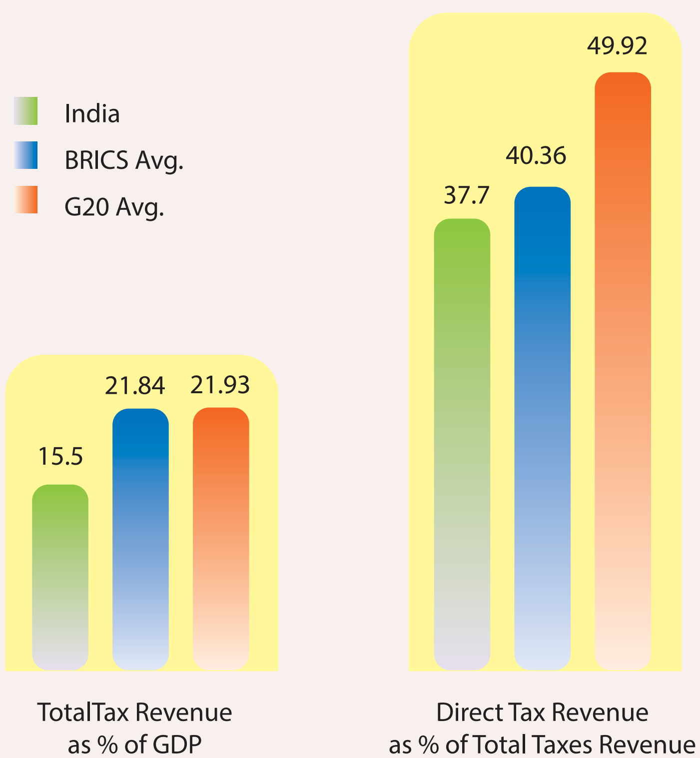
Property Taxes Comparison



- **Wealth Taxes** in India contribute only around 0.007% of GDP in India (in 2009-10), **Estate Duty (Inheritance Tax)** was suspended in India in 1985 and **Gift tax** collections are far too minimal.

- Wealth inequality in India seems to have increased manifold since the reforms of 1990-91. While the Planning Commission estimates that top 5 % of households possess 38 % total assets, as per the *Forbes* List the combined net worth of 55 dollar billionaires of India stood at US $ 240 billion (Rs. 13,92,000 crore) in 2011.

Total and Direct Taxes Comparison



- The paper estimates Wealth tax revenue potential to be around Rs. 47,250 crore per annum. The estimated revenue potential for Inheritance tax is found to be Rs. 16,863 crore per annum. Also, the Municipal Property Tax revenue potential has been estimated to be around Rs. 22,000 to Rs. 32,000 crore per annum (by the XIII Finance Commission). These estimates together constitute around 1.04% of GDP in India.

CONCLUSION

The conventional argument for abolishing inheritance and wealth tax in India has been that its revenue potential is very low compared to the cost incurred in collecting it. But as per data for 2011-12, budget expenditure of only Rs. 0.7 was incurred to collect Rs. 100 of Wealth tax. This indicates that there is a real opportunity to revisit the application of these taxes and for the government to systematically collect data on private wealth distribution. Necessary reforms are also needed for better targeting and valuation of property for urban Municipal taxes which have not been initiated at the required pace or scale. Wealth, Inheritance and Municipal Property Taxes, though being different taxes with different objectives, are essentially interlinked as they derive their value predominantly from property. A good Wealth and Inheritance tax structure cannot be developed without good valuation and targeting of properties for Municipal Property Tax.

Finally, it is important to reiterate that the purpose of Wealth and Inheritance tax was never *only* revenue mobilization, but also to check concentration of wealth in the hands of a few as is enshrined in the Constitution of India.

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This note is based on the Oxfam India- CBGA publication, **Property Taxes Across G20 Countries: Can India Get it Right?**, *by Prashant Prakash*
Available at: www. cbgaindia.org