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Wealth Tax in India: A Study of Legal and Administrative Issues Arising from its Reintroduction and Implementation

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***Abstract*—India levied an annual tax on net wealth from 1957 until it was abolished by the Finance Act, 2015. The reason given was simple: the tax cost too much to administer and brought in too little. A decade later the question has returned. Studies showing a sharp concentration of wealth at the top, together with international discussion of minimum taxes on billionaires, have revived calls for a wealth tax in India. This paper examines whether such a tax can be reintroduced and, more importantly, whether it can be made to work. It first traces the history of the Wealth Tax Act, 1957 and the reasons for its failure. It then examines the constitutional basis of a wealth tax, including the division of legislative power and the relevant decisions of the Supreme Court. The core of the paper deals with the practical problems of valuation, the definition of the tax base, liquidity, capital flight, compliance and the effect on fiscal federalism. A short comparison is drawn with Spain, which kept its wealth tax when most of Europe abandoned the idea and added a solidarity tax on large fortunes in 2022. The paper concludes that the legal obstacles are manageable, but the administrative ones are serious, and that any new tax must be designed very differently from the old one.**

***Index Terms*—Fiscal federalism, net wealth tax, Spain, tax administration, valuation, Wealth Tax Act 1957.**

I. INTRODUCTION

Few taxes provoke as much argument as a tax on wealth. For its supporters it is a matter of basic fairness, since large fortunes often grow through capital gains that are lightly taxed or never realised at all. For its critics it is a tax on savings, which pushes capital and people out of the country and costs more to collect than it yields. India has tried both positions. It taxed wealth for nearly six decades and then gave up.

The present debate has been driven largely by data. A 2024 study from the World Inequality Lab estimated that the top one per cent of Indian adults held about 40.1 per cent of the country's wealth in 2022-23 and proposed a two per cent annual tax on net wealth above Rs 10 crore [10]. Civil society reports published in 2026 have pressed similar demands [11]. The Government, for its part, has shown no sign of bringing back the tax, and many tax experts remain doubtful.

This paper does not try to decide whether India should tax wealth, which is finally a question of policy. Its aim is narrower. It asks what legal and administrative problems would arise if Parliament chose to reintroduce the tax, and how they might be addressed. Part II sets out the method. Part III deals with history and Part IV with the constitutional position. Part V sets out the arguments on both sides, Part VI examines the main issues of implementation, Part VII looks at Spain, and Parts VIII and IX offer suggestions and a conclusion.

II. RESEARCH METHODOLOGY

The study is doctrinal, with a limited comparative element. Primary sources include the Constitution of India, the Wealth Tax Act, 1957, the Finance Act, 2015, judgments of the Supreme Court and Spanish legislation on wealth taxation. Secondary sources include committee reports, OECD studies, academic papers and official speeches. Spain was chosen for comparison because it is one of the few countries that still levies a net wealth tax and because its quasi-federal structure raises questions similar to those in India.

III. HISTORICAL BACKGROUND

A. The Wealth Tax Act, 1957

The tax was introduced on the recommendation of the economist Nicholas Kaldor, who in his 1956 report on Indian tax reform suggested that an annual tax on wealth would complement the income tax and help catch income that escaped it [3]. The Wealth Tax Act, 1957 [1] imposed a charge on the net wealth of individuals, Hindu undivided families and, for some years, companies.

The Tax Reforms Committee chaired by Raja Chelliah reviewed the tax in the early 1990s and found that its broad base encouraged evasion and litigation without much revenue. On its advice the tax was confined from 1992-93 to "unproductive" assets such as residential houses beyond one, urban land, jewellery, bullion, motor cars, yachts, aircraft and cash beyond a limit. Productive assets like shares and business assets were excluded, and a single rate of one per cent applied to net wealth above Rs 30 lakh.

B. Abolition in 2015

By then the base was so narrow that the tax had become largely symbolic. In his Budget speech of February 2015 the Finance Minister noted that wealth tax had brought in only

about Rs 1,008 crore in 2013-14 [4]. The tax was abolished from assessment year 2016-17 by the Finance Act, 2015 [2] and replaced by an additional surcharge of two per cent on persons with taxable income above Rs 1 crore. The Government expected the surcharge to yield about Rs 9,000 crore, and it was said that details of assets would instead be captured through the income tax return. In short, the old tax failed less because the idea was wrong and more because its design made it easy to avoid and costly to run.

IV. CONSTITUTIONAL FRAMEWORK

Parliament's competence to tax wealth comes from Entry 86 of List I of the Seventh Schedule, which covers "taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies" [5]. States have power under Entry 49 of List II to tax lands and buildings.

The overlap between these entries was settled early. In Sudhir Chandra Nawn v. Wealth-tax Officer [6] the Supreme Court held that wealth tax under Entry 86 is levied on the total value of a person's assets, including buildings, and is not a tax on lands and buildings as such, so it does not trespass on the State field. The harder question concerned agricultural land, which Entry 86 expressly excludes. In Union of India v. Harbhajan Singh Dhillon [7], a majority of the Court held that Parliament could tax net wealth including agricultural land under the residuary power in Entry 97 of List I. The decision was by a narrow margin, and the minority's view that the exclusion in Entry 86 reflected a deliberate constitutional choice has not lost its force in academic writing.

Any new tax would also have to meet Article 14 and Article 265. A tax that relies on uncertain valuation methods or gives wide discretion to officers may be open to challenge as arbitrary. These are not barriers, but they do mean that the statute must lay down clear rules for valuation rather than leave everything to the assessing officer.

V. THE CASE FOR AND AGAINST REINTRODUCTION

Before turning to implementation, it helps to set out the main arguments on each side, since the design of any tax depends on what it is meant to achieve.

Those who favour a wealth tax make three main points. First, they argue that income tax alone cannot reach large fortunes, because much of the gain on shares and property is unrealised and therefore untaxed until sale, if at all. Second, they point to the concentration of wealth shown in recent studies and argue that a modest tax on a very small group could raise substantial revenue for health, education or social security. The World Inequality Lab estimated that its baseline package, combining a wealth tax with an inheritance tax, could raise about 2.7 per cent of GDP [10]. Third, they say that India's present system is already regressive in parts, as indirect taxes fall heavily on poorer households.

Opponents answer that India's own experience shows that the revenue estimates are optimistic, since the old tax never yielded much. They argue that a wealth tax discourages saving and investment, that it may lead entrepreneurs to shift residence or holding structures abroad, and that the cost of valuation and litigation would be high. They also note that most OECD countries that once levied such a tax have abandoned it; the number fell from twelve in 1990 to four in 2017 [12]. Some suggest that better enforcement of capital gains tax, or reform of the taxation of inheritances, would achieve the same goals more efficiently.

Both sides make serious points, and the empirical evidence, especially on revenue and migration, is contested. What matters for this paper is that whichever view prevails, the legal design will decide whether the tax works in practice.

VI. LEGAL AND ADMINISTRATIVE ISSUES IN IMPLEMENTATION

A. Valuation

Valuation is the central problem of any wealth tax. Listed shares and bank deposits are easy to value, but unlisted shares, family businesses, land, art and jewellery are not. Under the old Act, Schedule III laid down detailed rules, yet disputes over valuation remained among the most common grounds of appeal. Land values in India are especially difficult because circle rates often differ widely from market prices, and records of title are incomplete in many States. For founders whose wealth lies mostly in unlisted companies, a valuation dispute could decide the entire liability. Without a reliable and accepted valuation method, a new tax will simply repeat the litigation of the past.

B. Defining the Base

The second issue is what to include. A narrow base like the post-1992 one invites people to shift wealth into exempt assets, which is exactly what happened. A broad base is fairer but harder to administer. Exemptions for agricultural land, a principal residence, pension savings or closely held businesses will each be demanded, and each weakens the tax. The treatment of trusts, Hindu undivided families and holding companies also needs care, since wealth can be parked in such vehicles to fall below the threshold. Anti-avoidance rules would have to look through these structures.

C. Liquidity and Capital Flight

Many wealthy persons are rich in assets but not in cash. A founder holding a large stake in an unlisted company may have to sell shares, or borrow, simply to pay the tax. Some countries deal with this by allowing deferral or payment in instalments. The larger fear is of flight. Highly mobile

individuals may change their residence, and the experience of Norway, where a number of wealthy taxpayers moved to Switzerland after its wealth tax rates were raised in 2022, is often cited. India already taxes residents on worldwide income, but residence for tax purposes can be changed with planning. Any reintroduction would probably need an exit charge or similar measure, which itself raises legal questions.

D. Information and Compliance

In one respect India is far better placed than in 2015. Statements of financial transactions, the Annual Information Statement, the automatic exchange of financial account information with other countries since 2017 and the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 give the tax department much more data than it once had. Assets held abroad are now harder to hide. Still, data on unlisted holdings, cash, bullion and benami property remains weak. A tax confined to a very small number of very wealthy persons, as recent proposals suggest, would at least limit the administrative burden to a manageable group.

E. Fiscal Federalism

A point often missed is the effect on the States. After the Constitution (Eightieth Amendment) Act, 2000, taxes in List I generally form part of the divisible pool shared with the States under Article 270, but surcharges and cesses do not. The 2015 decision to replace wealth tax with a surcharge therefore moved that revenue outside the divisible pool. A reintroduced wealth tax under Entry 86 would be shareable, which may be welcome to the States but reduces the Union's incentive to collect it. Any reform should face this question openly.

F. Legal Continuity and Double Taxation

Since the Income-tax Act, 2025 has replaced the 1961 Act from 1 April 2026, a new wealth tax would need its own statute or a separate chapter, with matching procedures for assessment, appeal and recovery. Further, some of India's older tax treaties contain provisions dealing with taxes on capital, and their relationship with any new tax would have to be examined to avoid double taxation of residents and non-residents.

VII. COMPARATIVE STUDY: SPAIN

Spain offers a useful comparison. Its wealth tax, the Impuesto sobre el Patrimonio, was established by Law 19/1991 [8]. In 2008 it was effectively suspended through a full rebate, then revived in 2011 as a temporary measure during the debt crisis, and later made permanent. The tax is ceded to the autonomous communities, which may alter rates and grant relief. Some, most notably Madrid, grant a 100 per cent rebate, so residents there pay nothing, while others such as Catalonia levy it at progressive rates.

This regional competition produced the very problem the tax was meant to solve, as wealthy persons could reduce their burden by moving their residence within the country. In response, the national government introduced the Temporary Solidarity Tax on Large Fortunes through Law 38/2022 [9]. It applies to net wealth above three million euros, at rates from 1.7 to 3.5 per cent, and the regional wealth tax actually paid is credited against it. In effect it sets a national floor. Madrid challenged the law, but the Constitutional Court upheld it in 2023, and the tax has since been extended.

Three lessons follow for India. First, where both the Union and the States have a stake, the design must prevent internal competition from emptying the tax. Second, a high threshold, with exemptions such as a main residence, keeps the tax focused on the very wealthy. Third, the Spanish experience confirms that a wealth tax yields modest revenue, often well under one per cent of GDP, and is defended at least as much on grounds of equity as on revenue. It is fair to add that critics in Spain argue the tax has encouraged wealthy taxpayers to leave, and the evidence on this point is still debated.

VIII. SUGGESTIONS

If Parliament decides to bring back a wealth tax, the following points deserve attention. The tax should apply only to very high net wealth, so that it reaches a small group and can be administered intensively. The base should be broad, covering financial and business assets, with only a few narrow exemptions. Statutory valuation rules should be laid down for unlisted shares and land, possibly with an option for advance valuation rulings. Payment by instalments or deferral should be allowed for illiquid assets, with interest. Anti-avoidance provisions should look through trusts and holding entities, and an exit charge on change of residence may be considered. Lastly, the sharing of revenue with the States should be settled in advance, perhaps through the Finance Commission.

IX. CONCLUSION

The abolition of wealth tax in 2015 was a judgment on a badly designed tax, not on the idea of taxing wealth as such. The constitutional position, settled by Sudhir Chandra Nawn and Harbhajan Singh Dhillon, poses no real obstacle to a new tax. The serious difficulties are practical ones: valuation, a leaky base, illiquid assets, mobility of the very rich and the division of revenue between the Union and the States. Better data and international cooperation have made some of these easier than before, but they have not disappeared. Spain shows that a wealth tax can survive in a modern economy, yet also that it needs careful design and political will. Whether India takes that step is for the

legislature to decide. What this study suggests is that, if it does, it must learn from the failure of the 1957 Act rather than simply revive it.

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