Indian Economy · GS - III

Discuss the potential benefits and challenges of taxing accumulated wealth and unrealised capital gains. How can governments balance revenue generation, economic equality and investment incentives?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 03/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Wealth inequality; tax base; unrealised capital gains; revenue generation; public services; valuation difficulties; liquidity constraints; tax avoidance; capital mobility; policy design

Model Answer

Introduction

Wealth taxation seeks to tax accumulated assets rather than only income flows. Proposals to tax unrealised capital gains extend this debate by potentially taxing increases in asset values before their sale.

Potential Benefits

A carefully designed wealth tax may generate revenue for public services and reduce excessive wealth concentration. It may also improve the perceived fairness of taxation where substantial asset appreciation produces limited taxable income.

Major Challenges

Valuing illiquid or privately held assets can be difficult and administratively costly. Taxpayers may face liquidity constraints when asset values rise without generating cash income. High or poorly designed taxes may encourage avoidance, asset restructuring or relocation, potentially affecting investment and the tax base.

Way Forward

Governments should establish clear valuation rules, effective reporting systems and safeguards against evasion. Appropriate thresholds, carefully designed exemptions and payment arrangements may reduce unintended burdens. Policymakers should also assess administrative costs, behavioural responses and distributional outcomes before implementation.

Conclusion

Wealth taxation can contribute to revenue generation and greater economic equality, but its effectiveness depends on equitable design, enforceability and careful consideration of investment incentives and taxpayer mobility.

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