



CURRENT AFFAIRS



Argasia Education PVT. Ltd. (GST NO.-09AAPCAI478E1ZH)
Address: Basement C59 Noida, opposite to Priyagold Building gate, Sector 02,
Pocket I, Noida, Uttar Pradesh, 201301, CONTACT NO:-8448440231

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INHERITANCE TAX: EQUITY AND EFFICIENCY

THIS ARTICLE COVERS 'DAILY CURRENT AFFAIRS' AND THE TOPIC DETAILS OF "INHERITANCE TAX: EQUITY AND EFFICIENCY". THIS TOPIC IS RELEVANT IN THE "ECONOMY" SECTION OF THE UPSC CSE EXAM.

WHY IN THE NEWS?

In the midst of Lok Sabha election campaigning, there has been significant controversy surrounding the proposal to implement an Inheritance Tax in India. This tax is seen by some as a means to promote fair distribution of wealth. However, there are reservations regarding its potential exploitation for symbolic purposes and its portrayal as a populist measure under the guise of a "Robin Hood Tax."

ABOUT INHERITANCE TAX

- Inheritance tax refers to a tax imposed on the transfer of property or assets received from a deceased individual. It is calculated based on the value of the inheritance received by the beneficiary and is typically paid by the beneficiary.
- The tax rate can vary significantly depending on the country, with some jurisdictions imposing rates as high as 55%. Inheritances can be received through a formal will or under the applicable personal laws governing the deceased individual. Presently, in India, the practice of imposing taxes on inheritance is not in effect.

INHERITANCE TAX IN INDIA

- India previously enforced a different version of the Inheritance Tax, commonly referred to as the estate duty. This tax regime was introduced in 1953 and applied to the market value of all immovable properties within India, as well as movable assets transferred to successors following an individual's death.
- However, due to a significant number of legal disputes and high administrative costs associated with tax collection, the Rajiv Gandhi Government opted to abolish the estate duty in 1985.

REASONS FOR ELIMINATING ESTATE DUTY/WEALTH TAX AND GIFT TAX:

1. **Administrative Burden:** Taxpayers faced excessive administrative burdens due to the presence of two distinct taxes on property, namely wealth tax (prior to death) and estate duty (following death).
2. **Unfulfilled Objectives:** These taxes failed to address the issue of unequal wealth distribution, and they did not significantly contribute to financing state development programs as intended.

3. **Inefficiency in Scale:** Despite the imposition of estate duty, the revenue generated was relatively low, around Rs 20 crore in 1985, while the administrative and collection costs were disproportionately high.
4. **Tax Evasion:** The imposition of high tax rates often leads to capital flight and investment diversion to tax havens or jurisdictions offering more favourable tax rates.

STATUS OF INHERITANCE TAX IN THE WORLD

- Several developed countries have inheritance tax rates that vary from 7% to 55%. For instance, in the United States, the federal government imposes a 40% inheritance tax on estates valued at over \$12.06 million.
- Similarly, in the United Kingdom, estates worth more than £325,000 are subject to a 40% inheritance tax rate. Other nations with notable inheritance tax rates include Japan, France, and South Korea, where rates range from 55% to 50%, respectively.
- Japan boasts the highest inheritance tax rate globally at 55%, with South Korea closely following with a rate of 50%.
- **OECD Wealth Transfer Tax Trends:** Among the 36 OECD countries, 24 impose taxes on the transfer of wealth from deceased individuals. However, since 2000, 10 OECD nations, including Austria, Sweden, New Zealand, and Australia, have opted to abolish this levy. Similarly, in developing countries like Brazil, South Africa, and the Republic of Korea, inheritance tax is viewed as a means to rectify wealth distribution disparities.



ADVANTAGES OF INHERITANCE TAX

- **Promoting Equity:** An inheritance tax can play a crucial role in promoting wealth redistribution and reducing economic inequality. By taxing large inheritances, especially those received by the

affluent, the government can generate revenue that can be used for social welfare programs aimed at supporting the less privileged sections of society.

- **Resource Mobilisation:** Implementing an inheritance tax can serve as a means of mobilising resources for the government. The revenue generated from such a tax can contribute to funding various development projects, infrastructure initiatives, and public services, ultimately aiding in the nation's overall economic growth.
- **Addressing Wealth Disparities:** India grapples with significant disparities in wealth distribution, with a considerable portion of wealth concentrated in the hands of a few individuals or families. An inheritance tax can help curb the perpetuation of dynastic wealth accumulation and encourage a more equitable distribution of resources across society.
- **Fostering Economic Efficiency:** Inheritance taxes can also promote economic efficiency by discouraging the hoarding of wealth and encouraging its productive utilisation. By imposing taxes on large inheritances, the government can incentivize individuals to invest their wealth in productive ventures rather than simply accumulating it for future generations.
- **Global Trends and Norms:** Many countries around the world have implemented inheritance tax systems as part of their fiscal policies. India can align itself with global norms by introducing a similar tax regime, thereby contributing to international efforts aimed at addressing economic inequality and promoting social justice.

DISADVANTAGES OF INHERITANCE TAX

- **Challenges in Assessment:** The government would need to allocate significant resources and expertise for the assessment of property values and the collection of revenues derived from inheritance tax.
- **Business Closure Risks:** Inheritance tax could exert additional pressure on less profitable or smaller enterprises, as beneficiaries may lack the necessary funds to settle the tax obligation. This could potentially lead to distressed sales and the closure of businesses.
- **Outflow of Capital and Talent:** There's a risk that inheritance tax may prompt the departure of entrepreneurial talent and financial resources from the country.
- **Impact on Asset Creation and Inflation:** Inheritance tax may deter saving and encourage consumer spending, potentially contributing to higher inflation rates. Moreover, it could dampen incentives for the creation of capital assets, thereby impeding economic growth.
- **Double Taxation Concerns:** Critics argue that inheritance tax imposes secondary taxation, as the inherited property or funds may have already been subjected to taxation as earned income.

NEED OF INHERITANCE TAX IN INDIA

Tax Burden Disproportionality

Approximately 64% of the entire goods and services tax (GST) revenue in the nation originates from the bottom 50% of the population, while only 4% emanates from the top 10%.

Escalating Wealth and Income Inequality

As per the World Inequality Report 2022, India ranks among the most unequal nations globally, with the top 10% and top 1% holding 57% and 22% of the national income, respectively. Conversely, the share of the bottom 50% has dwindled to 13%. Wealth distribution in India is alarmingly skewed, with the top 10% of the populace possessing 77% of the total national wealth. The wealthiest 1% owns 53% of the country's wealth, leaving the less affluent half with a meagre 4.1%.

Rising Gini Coefficient

The Gini wealth coefficient in India surged from 81.3% in 2013 to 85.4% in 2017, where 100% denotes maximal inequality. The growth trajectory in India has been lacking in inclusivity.

Multidimensional Poverty

According to the NITI Aayog's National Multidimensional Poverty Index (MPI), India's population residing in multidimensional poverty was recorded at 14.96% during 2019-21. Rural areas of India witnessed multidimensional poverty at a rate of 19.28%, while urban regions reported a poverty rate of 5.27%.

PRELIMS PRACTISE QUESTION

Q1. What does the term "Base Erosion and Profit Shifting" refer to?

- (a) Mining activities conducted by multinational corporations in resource-abundant yet underdeveloped regions.
- (b) Efforts aimed at preventing tax evasion by multinational corporations.
- (c) The utilisation of a country's genetic resources by multinational corporations.
- (d) Failure to adequately consider environmental costs in the planning and execution of development ventures.

Answer: B

MAINS PRACTISE QUESTION

Q1. Discuss the potential advantages of reintroducing an inheritance tax in India. How could it help address the country's wealth inequality concerns?

Q2. What are the potential economic implications of an inheritance tax in India, in terms of its impact on capital formation, investment, and entrepreneurship? Evaluate the merits and demerits of such a tax from an economic perspective.

Himanshu Mishra

P VS NP PROBLEM IN HEALTHCARE

THIS ARTICLE COVERS 'DAILY CURRENT AFFAIRS' AND THE TOPIC DETAILS OF "P VS NP PROBLEM IN HEALTHCARE ". THIS TOPIC IS RELEVANT IN THE "SCIENCE AND TECHNOLOGY" SECTION OF THE UPSC CSE EXAM.

WHY IN THE NEWS?

In the 17th century, the Dutch draper Anton van Leeuwenhoek made a groundbreaking discovery that transformed the field of healthcare. Using a small handmade microscope, he peered into a previously unseen world and discovered microorganisms, giving rise to the field of microbiology. This discovery offered solutions to healthcare challenges that had previously seemed intractable.

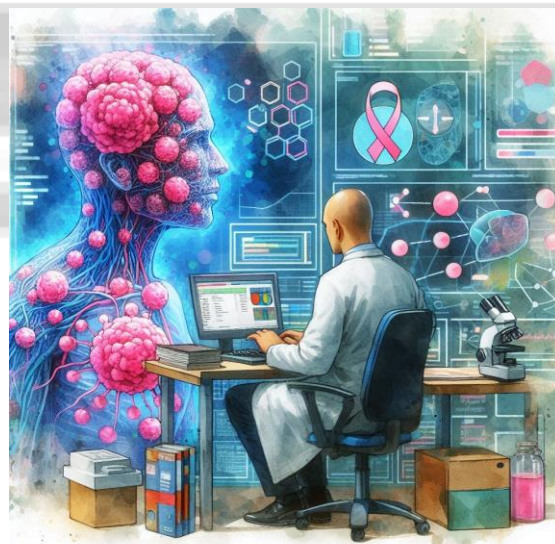
Similarly, today, we face a new set of complex problems in healthcare that appear even more intractable than those encountered in the past. These problems are characterized by their inherent complexity and the constraints they threaten to impose on resources. Just as van Leeuwenhoek's microscope opened up a new frontier in healthcare, the resolution of the P versus NP problem in computer science could hold the key to unlocking solutions to these modern-day healthcare conundrums.

P VS NP PROBLEM

The P versus NP problem is a fundamental question in computer science that revolves around the relationship between two complexity classes: P and NP. In simple terms, P problems are those that can be efficiently solved in polynomial time, while NP problems are those for which solutions can be quickly verified but might be computationally challenging to find. The main question at the heart of the P versus NP problem is whether every problem that can be verified quickly can also be solved quickly. This question has significant implications for various fields, including cryptography, optimization, and machine learning.

The P versus NP problem remains unsolved, and it is considered one of the most important open problems in theoretical computer science. The consensus among computer scientists is that P is not equal to NP, meaning that there are problems in NP that are believed to be inherently harder to solve than those in P. If P were proven to be equal to NP, it would have profound implications, potentially revolutionizing fields like cryptography and optimization while also posing significant challenges in terms of data security.

To illustrate, consider a simple arithmetic scenario: multiplying 17 by 19 to get 323 is a 'P' problem, solvable in a reasonable amount of time. However, if presented with 323 and asked to identify the prime numbers that were multiplied to obtain it, this becomes an 'NP' problem. While solving NP problems may take longer, once the solution is found, it can be swiftly verified. This distinction between P and NP problems encapsulates the essence of the P versus NP problem and its potential impact on diverse fields, including healthcare, where efficient problem-solving could revolutionize medical science.



HOW THIS CAN TRANSFORM HEALTH CARE

For instance, the issue of antibiotic resistance is a significant global health concern. If P equals NP, it may become possible to quickly analyze bacterial genomes and accurately predict their resistance

patterns. This could help doctors prescribe the most effective antibiotics, leading to improved patient outcomes and aiding the fight against antibiotic resistance. Additionally, the discovery of new antibiotics for emerging diseases could be accelerated.

Similarly, in the case of cancer, the process of determining the optimal treatment plan for each individual patient is an NP problem, as it involves considering all possible combinations of drugs and therapies. If P equals NP, it may become feasible to swiftly identify the optimal treatment for each cancer patient, potentially saving many lives. However, the success of this approach would still depend on the availability of a large volume of data.

These examples illustrate how the resolution of the P versus NP problem, if proven that P equals NP, could have far-reaching implications beyond the realms of mathematics and computer science. By transforming certain NP problems into P problems, it could unlock new possibilities and solutions in various fields, including healthcare and medicine, ultimately leading to tangible improvements in people's lives.

OTHER APPLICATIONS IN PRACTICAL LIFE

1. Vehicle Routing (Traveling Salesman Problem): Optimizing routes for transportation, such as finding the shortest path between cities, could significantly enhance logistics efficiency and save costs in the transportation sector.
2. Facility Location: Identifying optimal locations for factories to streamline supply chain logistics, reducing expenses and increasing operational efficiency.
3. Circuit Designing: Simplifying the design of large boolean circuits by efficiently solving circuit problems, reducing hardware dependency and improving computational efficiency.
1. Compilers: Enhancing compiler performance by optimizing register allocation through graph coloring, leading to faster processing and improved computational efficiency.
2. Graph Optimizations: Applying graph optimization techniques in various areas, such as independent set problems and graph coloring, to improve computational efficiency and problem-solving capabilities.
3. Computer-Aided Designs and Artificial Intelligence Algorithms: Simplifying the design and implementation of AI algorithms and computer-aided designs by providing efficient solutions to complex problems.
4. Protein Structure Prediction: Enabling the prediction of protein structures in polynomial time, leading to advancements in technology and scientific research. This can help in solving problems related to cancer mutation cells.
5. Cryptography: Breaking existing cryptographic systems and improving cryptographic algorithms by developing constructive proofs for the P versus NP problem.

The debate surrounding the P versus NP problem involves complex theoretical and practical considerations, with researchers exploring various angles to understand the nature of computational complexity and the boundaries of efficient problem-solving. Despite the ongoing efforts and debates, a definitive resolution to the P versus NP problem remains elusive, highlighting the depth and complexity of this fundamental question in computer science.