

Re-thinking Financial Inclusion: Using Capital Markets and Taxation to Spread wealth



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The source of wealth shifted over the last one hundred or more years. In earlier days it was land, then it was ownership of other natural resources like oil, steel, coal. Later it moved to ownership of industries. Today financialization of economies in most parts of the world has resulted in wealth being held in shares. One measure of financialization of an economy is its comparison to the GDP of the country as a whole. Another important issue is the percentage of a country's population that participates in this through ownership of shares. This could be directly owned by individuals, or through intermediate organizations like Insurance, mutual funds and so on which in turn own shares on behalf of individuals. The following table gives an International comparison of India with a few countries.

Country	Financial Sector Assets-to-GDP Ratio	Population Owning Shares (Direct & Indirect)
India	~120% to 150%	~ 9.5% to 11%
China	~350% to 400%	~13% to 16%
United Kingdom	~600% to 700%	~33%
South Korea	~300% to 350%	~ 44%
United States	~350% to 450%	~ 58% to 62%

India has the lowest ratio of Financial Sector Assets to the GDP, and also has the lowest percentage of people who own shares. The number is rapidly rising though. One possible conclusion is that wealth has not yet spread among the population. There are many reasons for all these differences. For instance China's ratio of financial sector assets is high because of banking rather than the capital markets.

However that is not the point of these comparisons. We focus here on financial inclusion of wealth, not income. Here we see that India is low. No doubt many families own property or gold and so the low percentage may not reflect wealth exclusion. Comparing wealth inequality gives a more complete picture. The US has by far the highest wealth inequality with the bottom 50% having less than 2%. For the other countries, the bottom 50% have between 5% to 7% of the total wealth. However, India is highest in another type of wealth inequality: the top 1% have about 41.5% of the nation's total wealth. The US is next with the top 1% having about 37% of the wealth, followed by China at 33%, UK and South Korea at about 23%. One interesting conclusion is that South Korea transitioned from a developing country to a fully developed one resulting in a more financially inclusive wealth distribution.

What can we do to incentivize wealth distribution among a larger base in India? If we look at a few other countries, they have come up with a very interesting means of achieving this. Companies that distribute shares to the lowest paid workers for instance get tax incentives.

Some countries use some variation of the following method to give tax incentives to corporations. They calculate the free public float. They exclude the following shares held by : Sponsors and Directors, Government Holdings, Strategic Corporate Stakes or equity held by private corporate bodies or individuals that exceeds 5% of the total outstanding shares , cross-holdings or equity held by parent companies, sister concerns, or subsidiaries and Regulatory Lock-in Shares held by pre-IPO investors and promoters. Listed companies with a high percentage of public float shares get a direct tax benefit. Usually emerging economies use this including Philippines, Indonesia, Egypt and Bangladesh. Many companies have taken advantage of this through one of four principal methods. One is by promoters and strategic investors selling their shares. Another is by issuing more shares. A third method is to sell to designated public financial institutions that do not have large strategic controlling investors holding more than 5% (or any other number). Another is to speed up ESOPs so that public float increases.

Various studies show that this has had an impact and public float has increased the number of share holders. However in developing economies it has not really affected wealth inequality. (Wealth inequality is not the issue – the real issue is lack of wealth of a sizeable segment of the population). That is because the bottom 50% of the population rarely buys shares. It is the middle class or upper middle class who do so.

Developed economies have a variant of this where the focus is on shares given to blue collar staff or to other employees as well. If companies in the UK give free shares to a wide base of lower-level employees, the company receives a direct corporation tax deduction for the market value of those shares. It is called a Share Incentive Plan. In the US, if a company forms an ESOP¹ that owns 100% of the business on behalf of its thousands of employees, and

registers as an S-Corporation, **the company pays 0% federal corporate income tax**. All corporate profit flows tax-free into the employees' retirement accounts, creating widespread wealth. However if it is not 100% an ESOP, then they pay tax only on the portion of profits not transferred to the ESOP.

Some large examples in the US include Publix Super Markets with a turnover in 2025 of \$62.7 b, and net profits of \$.47 billion, with 260,000 workers. It is privately held, but an independent evaluator determines the share value, which is currently (as of June 2026) \$19.25. The company is well known for creating thousands of blue collar millionaires who retire with something between \$1 and \$3 million. The company puts in about 8% to 10% of wages annually to the ESOP, amounting to between \$500 and \$800 million. Over and above that, since the ESOP owns 80% of the company, the dividends are paid to employees. This dividend is not double taxed – the company deducts the dividend paid into the ESOP as expense before arriving at final profit. This is not an “S-Corporation” with 100% corporate tax exemption because the ESOP owns less than 100% of the stocks.

An ESOP with 100% ownership enjoys full 100% corporate tax benefit. Such companies like WinCo Foods has a turnover of \$10 billion with an estimated profit of 2% to 3% or about \$200 to \$300 million. All this is tax free and used for further growth and for annually topping up the ESOP funds.

If such a rule were implemented in India for genuine Farmer Producer Organizations where ownership is entirely with members, then they would get a tax break. For agriculture businesses with low net margins, profits would more than double. This can make a huge difference as more than 100 million Indians are farmers. Other countries allow regulated listing of Cooperative shares, but India does not. The regulation ensures that control remains with the farmers and not with external investors. We do not have that as yet.

India has taken some initiatives like a minimum percentage for small share holders. However unlike US, UK, Philippines, Indonesia, Bangladesh and Egypt, there are no tax based incentives.

But the broader idea is to get more Indians to participate in the financial boom. Some of these measures would help.

¹ An **Employee Stock Ownership Plan (ESOP)** in the USA is a highly regulated, tax-advantaged retirement benefit plan. Instead of directly buying stock, employees acquire shares through a dedicated trust, which holds the stock for them and distributes the value when they retire or leave the company. For the profits transferred to the ESOP no tax is paid.