Meaning of budget

The term budget is derived from the French w
"*Budgette*" which means a "leather bag" or a "wallet". It
statement of the financial plan of the government.

"A budget is a document containing a preliminary appro
plan of public revenues and expenditure".

Rene Stourm

In general Government Budget is an annual stateme
showing items wise estimates of receipts and expenditu

Important Points of Government Budget

- Budget is prepared by government at all level i.e, central government state government and local government prepare its respective annual budget . However, we restrict our studies to budget of central government known as Union Budget.
- Estimated expenditures and receipts are planned as per the objective of the government.
- In India, Budget is presented in parliament on such a day as the president may direct by convention, It is presented on last working day of February, each year.
- It is required to be approved by the parliament before it can be implemented.

Components of Budget

- Two major components of Budget are:-
- Revenue Budget:- It deals with the revenue aspect to the government budget. It explains how revenue is generated or collected .

Capital Budget:- **Capital Budget** consists of capital receipts and payments. It also incorporates transactions in the Public

Components

- The components of Budget can also be categorised according to receipts and expenditure .On this basis two broad components are :-

1)Budget Receipts 2) Budget Expenditure

- Budget Receipts:-Budget receipts refers to the estimated money receipt of this government from all sources during a given fiscal year Budget

- **Revenue Receipts:-** Revenue Receipts refers to those receipts which

➢ Create any liability nor cause any reduction in the assets of the government. They are regular and recurring in nature and government receives them in its normal course of activities.

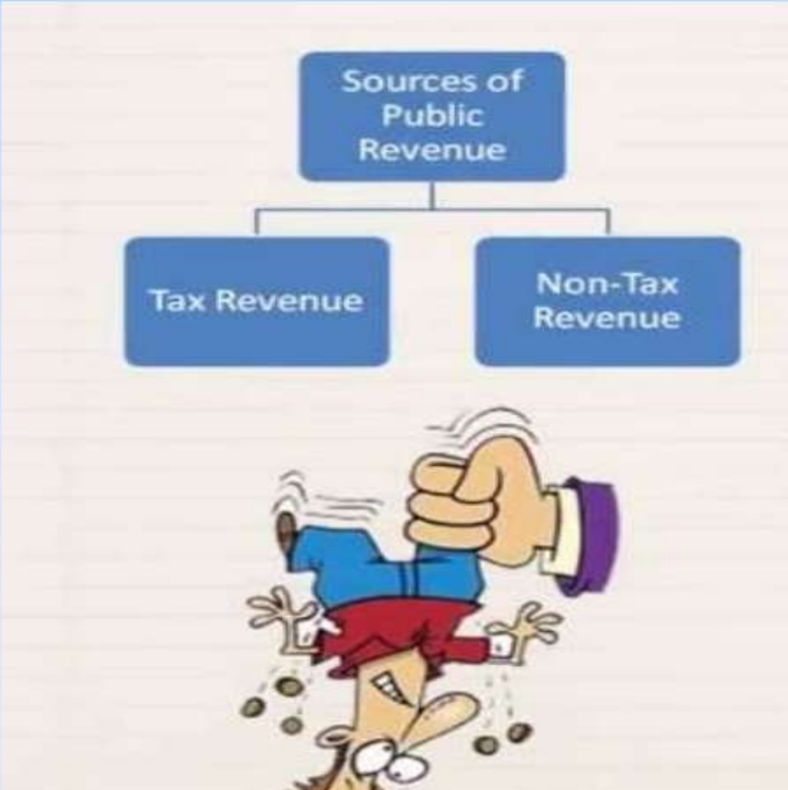
➢ A receipt is a revenue receipt is satisfies the following two essential conditions:-

1) The receipt must not create a liability for government for ex:- taxes levied by the government are revenue receipts as they do not create any liability. However any amount borrowed by the government is not a revenue receipt as it cause an increase in the liability in terms of repayment of borrowings.

2) The receipt must not cause decrease in the asset for ex:- receipts from sale of shares of a public

Sources of Revenue

- *Revenue Receipts of the government are generally classified under two heads:-*
- *1) Tax Revenue*
- *2) Non Tax Revenue*
- *Tax Revenue refers to sum total of receipts from taxes and duties imposed by the government . Tax is compulsory payment made by people and companies of the government without reference to any direct benefit in return .It means there are two aspects of taxes*
- *i)Tax is a compulsory payment no one can refuse to pay it.*
- *ii) Tax receipts are spent by the government for common benefit of people in the country.*



Types of taxes

- ***1) Direct Taxes:-*** *They are imposed on property and income of individual and companies and are paid directly by the governmen*
- *They are imposed on individuals and companies.*
- *The liability to pay the tax actual burden of tax lie on the same person i.e burden can not be shifted to others. E.g. income tax, wealth tax*
- ***2)Indirect Taxes:-*** *Refers to those taxes which affect the income a property of individuals and companies through their consumptior expenditure. E.g. Vat, GST, entertainment tax*

Non Tax Revenue

- Non tax revenue refers to receipts of the government from all services other than those tax receipts. The main sources of non tax revenue are

1. Interest:- Government receives interest on loan given by it to state government union territories private enterprises and general public
2. Fees:- It refers to charges imposed by government cover the cost of recurring provided by it court fees, registration fees etc. are some example of fees.

Fines and Penalties

- **License Fees:-** It is a payment charged by the government to grant permission of something license fees paid for permissio of keeping a gun or to obtain. National permit for commercia vehicles.
- **Fines and Penalties :-** They refers to those payment which are imposed on Law Breakers E.G: fine for jumping light, for non-payment of tax the latter

Components of capital budget

Capital Receipts

Capital receipts refers to those receipts which either create a liability or cause a reduction in the assets of the government. They are non recurring and non routine in nature

1)The receipts must create a liability for the government borrowings are capital receipts as they lead to an increase in the liability of the governmen . However tax received is not a capital receipt as it does not result in creation of any liability.

- Capital Receipts are broadly classified into three groups :
- <u>Borrowings:-</u> borrowings are the funds raise by government to meet excess expenditure
- i) Government Open Market
- ii) Reserve Bank Of India
- iii) Foreign Government
- iv)International Institutions
- v) Borrowings are capital receipts as they create a liability for the government.

leads to transfer of ownership PSU to the
rivate enterprises

mall Saving:- Refers to funds raised from
ne public in the form of post office deposits
National saving certificates , Kisan Vikas
atras etc. They are treated as capital
eceipts as they lead to an increase liability.

ssification:- *A* receipt is a capital, if it

Items Categorized as Revenue and Capital Receipts

- 1)Loan from the World Bank:-It is a capital receipt as it creates liability for the governmen
- 2)Corporation Tax:-It is revenue receipt as it neither creates any liability nor reduces any asset.
- 3)Grants received from World Bank:-It is a revenue receipt as it creates any liability nor reduces any asset of the government.
- 4)Profits of Public Sector Undertaking:-It is a

- <u>6)Foreign Aid against earthquake victims:-</u> It is a revenue receipt as it neither create any liability nor reduce any asset of the government.
- <u>7)Dividends on Investment made Government</u>:-It is revenue receipt as it neither any liability nor reduces any asset of the government.
- <u>8)Borrowings from Public:-</u>It is a capital receipt as it creates liability

Budget Expenditure

- Budget Expenditure refers to the estimated expenditure of the government during a given fiscal year. The budget expenditure can be broadly classified as:
- 1)Revenue Expenditure
- 2) capital Expenditure

Revenue Expenditure

- Revenue expenditure refers to the expenditure which neither creates any asset nor causes reduction in any liability of government
- It is recurring in nature.
- It is incurred on normal functioning of the government.
- The expenditure must not create an asset of the government. Payment of salaries or pension is revenue expenditure as it does not create any asset Development of delhi metro is not a revenue expenditure as it leads to creation of an asset.

expenditure which either creates an asset or cause a reduction in the liabilities of the government. It is non-recurring in nature.

- It adds to capital stock of the economy and increase its productivity through expenditure on long period like Metro or Flyover.
- The expenditure must create an asset for the government for ex:- School building construction is capital expenditure as it leads to creation of asset However, any amount paid as salaries to teachers is not a capital expenditure.
- Examples: loan to states and union territories expenditure on building, roads, flyovers etc.

School Bldg. Construction

Recovery of loans

- 4)Construction of school buildings:-It is a capital Expenditure as it increase asset of the government.
- 5)Expenditure incurred on Administrative:-It is a revenue expenditure as it neither creates nor reduces any liability of the government.
- 6)Repayment of Loans:-It is a capital expenditure as it reduces the assets of the government.
- 7)Expenditure on building a bridge:-It is a capital expenditure as it increase asset of the government.
- 8)Payment of Salaries to staff of government:-It is a revenue expenditure as it neither creates any asset nor reduces anyliabilty of the government.
- 9)Purchase of 20 cranes for the flyover:-It is a capital expenditure as it increase asset of the government.

Plan and Non Plan Expenditure

- 1)Plan Expenditure:-Plan Expenditure refers to the expenditure that is incurred on the programmes detailed in the current five year plan for ex:- expenditure on agriculture and allied activities, irrigation, energy, transport etc.

i)Projects covered under the central plans
ii)Central assistance for state and Union Territory

- 2)Non-Plan Expenditure:-Non plan Expenditure refers to the expenditure

Development and Non Development Expenditure

- 1)Development Expenditure refers to the expenditure which is directly related to economic and social development of the country. Expenditure on such services is not a part of the essential functioning of the government. Developmental expenditure adds to the flow of goods services in the economy.
- 2)Non Developmental Expenditure refers to the expenditure which is incurred on the essential general services of the government. It does not directly contributes to economic development but it directly help in the development in the economy such expenditure is essential from the

Measures of Govt. BUDGET Deficit

- Budgetary deficit is defined as the excess of total estimated expenditure over total estimated revenue. When the govt. spends more than it collects then it incurs a budgetary deficit with reference to budget of Indian Govt. Can be of 3 type:-
- 1)Revenue Deficit
- 2)Fiscal Deficit

Revenue Deficit

- Revenue Deficit is concerned with the revenue expenditure and revenue receipts of the government. It refers to excess of revenue expenditure over revenue receipts during the given Fiscal, year.
- Revenue Deficit signifies that government own revenue is insufficient to meet the expenditures of government departments.
- Revenue deficit= Revenue expenditure – Revenue Receipts

Implications of revenue deficit

- It indicates the inability of the government to meet its regular and recurring expenditure in the proposed budget.
- It implies that government is dis-saving i.e government is using up saving or other sector of the economy to finance its expenditure.
- It also implies that the government has to make up this deficit from capital receipts i.e through borrowings or reduces the assets.
- Use of capital receipts for meeting the extra consumption expenditure leads to an inflationary

Fiscal Deficit

- A fiscal deficit occurs when a government's total expenditures exceed the revenue that it generates, excluding money from borrowings.
- Fiscal Deficit presents a more comprehensive view of budgetary tool for explaining and understanding the budgetary development in India.
- The extent of Fiscal deficit is an indication of how for the government is spending beyond its means.
- Fiscal Deficit= Total Expenditure- Total Receipts(excluding borrowings)

Implications

- Fiscal deficit indicates the total borrowings requirements of the govt. borrowing not only repayment of principal amount, but also require payment of interest .
- Government mainly borrow from Reserve Bank Of India to meet its Fiscal Deficit.
- Government also borrow from rest of the world which raises its dependence on thei country.
- Borrowings increase the financial burden

Sources Of Financing Fiscal Deficit

- **Borrowings:-** Fiscal deficit can be meet by borrowings from the internal sources on the external sources.
- **Deficit Financing:-** Government may borrow from Reserve Bank Of India against its securities to meet the fiscal deficit .RBI issues new currency for this purpose.

Primary Deficit & Implications

- It indicates how much of the government borrowings are going to meet expenditure other than. It indicates interest payments.
- The difference between Fiscal Deficit and Primary Deficit shows the amount of interest payment on the borrowings , made in past .
- Primary deficit = Fiscal Deficit – Interest Payments
- In India interest payment have considerably increased in the recent years. High interest payment on past borrowings have greatly increased the fiscal deficit . To reduce the fiscal deficit interest payment should be reduce4d through repayments of loans as early as possible.

How to classify expenditure as Revenue or Capital Expenditure?

- An Expenditure is a capital expenditure if it either creates an asset or reduces a liability.
- An expenditure is revenue expenditure if it neither creates any asset nor reduces any liability.
- 1)Subsidies:-It is a revenue expenditure as it neither create any asset nor reduce any of the government.
- 2)Defence capital equipments purchased from Germany:-It is a capital expenditure as it increase asset of the government.
- 3)Grants given to State Governments:-It is a revenue expenditure as it neither creates any asset nor reduces any of the government.