Chapter - 6 PART B

BUDGET

Meaning :- It is a statement by the government regarding the plant expenditure and the plant income for the upcoming fiscal year. In other words it is a annual financial statement containing an estimate of all anticipated revenue and expenditure of the government for the coming financial year i.e from 1st April - 31st March. In India, the budget is prepared under the chairmanship of the finance minister who presents the ~~b~~ budget on 1st February of every year ~~intro~~ in the parliament.

FEATURES OF BUDGET.

(i) It is a statement showing estimated receipt and expenditure for a financial year

(ii) Budget requires the approval of the parliament

OBJECTIVE OF BUDGET

(i) Allocation of resources - Sometimes the market fails to allocate resources efficiently. Thus the govt has to reallocate the resources in line with the social & economic conversation. And it does so via

(a) Directing resources into the area where the private sector is not coming e.g. Public goods (Road, park, education, health). This goods cannot be provided through the market mechanism and thus are provided by the govt.

(b) Production of harmful consumption good can be discouraged by imposing heavy taxation wheres production of socially usefull goods can be promoted by giving subsidy

(ii) Redistribution of income and wealth - The inequal distribution of income can be cured by imposing heavy taxation on the rich class and thereby collecting resources from them. This collected resources can then be distributed among the poor masses in form of subsidy

(iii) Economic Stability - A economy free of inflation and deflation is termed as stable economy.

However in times of inflation the govt can announce a contractionary monetary and fiscal policy in order to bring the aggregate demand down and thereby promote stability in the economy. In times of deflation govt may adopt expansionary monetary and fiscal policy in order to promote stability in the economy.

(iv) Management of public enterprise. Govt is known to undertake commercial activities that are of the nature of natural monopolies. The govt in its budget makes provision for ~~such~~ management and funding of such commercial activities and PSU's

COMPONENT OF BUDGET.

A budget has two broad components.

(i) Revenue budget
(ii) Capital budget

REVENUE ACCOUNT :- The revenue account includes all those transactions of the govt which does not changes the liabilities or asset position of the government. The revenue budget includes revenue receipts and revenue expenditure. * The revenue receipts are those receipts of the government which neither creates liabilities nor reduces assets of the govt.)

SOURCES OF REVENUE RECEIPTS.

* The govt receipts revenue from its two sources namely-

(i) Tax Revenue

(ii) Non tax Revenue

The tax revenue consist of revenue collected from direct & indirect tax such as revenue collected from income tax, wealth tax, property tax (Direct taxes) and revenue collected from custom duties, G.S.T etc (Indirect tax).

On the other hand non-tax revenue are collected by imposing fines, penalties, fees etc

Revenue expenditure - This refers to those expenditure of the govt which does not lead to creation of any physical or financial asset. Revenue expenditure is classified as planned and non planned expenditure. Plan expenditure are made on ~~plant~~ planned/proposed schemes and projects for the upcoming years whereas unplanned expenditure/non planned expenditure are made on a vast range of general, economic and social services of the government. For example, expenditure on the normal working of the administration of the nation in form of salaries and pensions, subsidies, interest payment are example of non planned expenditure.

CAPITAL ACCOUNT :- Capital budget includes all those transactions which are related effects to the assets & liabilities of the govt. The capital budget includes capital expenditure.

CAPITAL RECEIPT :- Whenever the govt raises funds either by incurring a liability or by disposing of its asset, its called capital receipt. It includes three items -

(i) Recovery of loan
(ii) Borrowing
(iii) Receipts through disinvestment or denationalisation

CAPITAL EXPENDITURE :- It refers to expenditure which either creates assets or reduces liabilities. It includes expenditure on acquisition of assets (viz buildings, machinery etc), expenditure on forwarding loans and grants to foreign nation or to state government and union territories by the central government. Capital expenditure can be classified as plant expenditure if it is related to central plans and central assistance for state and union territory plans. On the other hand non-plant capital expenditure covers general, social and economic services provided by the government

GOVERNMENT BUDGET

- Revenue Budget
  - Revenue receipts
    - Tax revenue
    - Non-tax revenue
  - Revenue expenditure
    - Plan revenue expenditure
    - Non-plan revenue expenditure
- Capital Budget
  - Capital receipts
  - Capital expenditure
    - Plan Capital Expenditure
    - Non-plan capital expenditure

Q Highlight the difference between direct and indirect tax

DIRECT	INDIRECT
(i) These taxes are paid by the same person upon whom the taxes are imposed	(i) Under this tax, the taxes are imposed on the producer but they are paid by the consumers
(ii) The burden of the tax can't be shifted	(ii) The burden of the tax can be shifted
(iii) This taxes are imposed on property income and wealth	(iii) The taxes are involved on the goods and services.
(iv) These taxes are progressive in nature. i.e the tax rate increases with an increase in the tax base.	(iv) These tax are often non-progressive
(v) Examples a) Income tax b) Property tax	(v) Examples. a) Custom duty b) G.S.T.

Explain proportional progressive & regressive taxes

i) Proportional taxes - Taxes are said to be proportional if the tax rate do not change with the change in the tax base.

ii) ~~Proportional~~ progressive - Taxes are said to be ~~proportional~~ progressive if the tax rate increases with an increase in the tax base.

iii) Regressive - regressive Taxes are said to be ~~proportional~~ if the tax rate decreases ~~who~~ with an ~~decrease~~ increase in the tax base.

Q DEVELOPMENT AND NON - DEVELOPMENT EXPENDITURE.

DEVELOPMENT EXPENDITURE - It refers to expenditure on activities which are directly ~~rea~~ related to economic and social development of the country. ~~E~~ This includes expenditure on education, health agriculture etc.

NON - DEVELOPMENT EXPENDITURE - It refers to expenditure incurred on essential general services of the govt such expenditure is essential from administrative point of view. ex - expenditure on police, judiciary, defence etc.

Q What are the different sources of non tax revenue

i) Interest - Govt recieves interest on loan given by it, to the state govt, union territories, private enterprise and general public. Interest received from this loan is an important source of non-tax revenue

ii) Profit and dividends - Govt earns profit from public sector undertaking. It earns profit from the sale proceeds of the product of such public enterprises. Govt also gets dividend from its investment in other companies.

iii) Fees and fines - Govt earns revenue by collecting fees for certain services that it provides viz court fees, registration fees, passport fees etc. It also earns revenue by imposing fines and penalties. For eg - fines for ~~law~~ law breaker such as crossing red lights, penalty for non-payment of taxes etc.

iv) Special assessment - It refers to the payment made by owners of those properties whose value has appreciated due to development activities of the government for like construction of road, setting up of macrostation etc.

v) Gifts and grants - Govt also receives financial help from within the country and abroad for tackling natural calamities like flood, earthquake etc

vi) Escheats - It refers to the claim of the govt on the property of a person who dies without leaving any legal heirachy or ~~&~~ will

Q Distinguish between debt creating and non-debt creating capital receipt

- Net borrowing by government at home, loan received from foreign government, borrowing from R.B.I etc increases the liability of a country and therefore are considered as debt creating capital receipt. On the other hand recovery of loan, receipt from disinvestment and denationalisation ~~d reduces~~ are example of non-debt creating capital receipt.

Q Distinguish between disinvestment and denationalisation.

Disinvestment refers to partially selling a public sector undertaking to a private firm. It leads to reduction in the amount of assets available to a govt. However it is to be noted that under disinvestment only a part of the shares of the PSU is sold to the private sector and not the entire ownership is transferred to the private firm. It is a way of collecting/raising fund by the govt. However this attempt of fund raising is termed as non debt creating capital receipt.

Denationalisation on the other hand implies transferring of ownership of a public setor enterprise from the govt to the private firm. It is achieved by selling of all the shares of the PSU to the private firms. It is also termed as a source of non-debt creating capital receipts

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DIFFERENCE BETWEEN PUBLIC AND PRIVATE GOOD

A public good is one which is characterised by the features of non - rivalry and non- exludeability. Non rivalry in consumption implies that consumption of a public good by one party does not reduces the amount of the good available for the consumption of another party. Again non - excluidability means that one party cannot restrict or exclude others from enjoying the benifit of the good even if they are not paying for the good. Thus it becomes difficult to fix a price for the public good as the public good can be enjoyed without even ~~paing~~ paying for the goods. It is termed as the problem of free rider. Due to the existence of the problem of the free rider in case of public good the producers are unwilling to produce such goods and therefore it is said that the govt has to make provision for producing the public good.

On the other hand private good is one which has a characteristic of rivalry in consumption and excludeability. Rivalry in consumption implies the consumption of a private good by a individual reduces the ~~amount~~ availability of this goods for others. Again excludeability in case of private goods implies that people who are not paying for the good can be excluded from the benifit of the group