Notes on

Budget

Introduction- Budget is an Annual Financial Statement of yearly estimated receipts and expenditures of the government in respect of every financial year.
Budgeting is the process of estimating the availability of resources and then allocating them to various activities according to a pre-determined priority.
Budgets act as instruments of control and act as a benchmark to evaluate the progress of various departments.

In simple words, "budget is the yearly financial description and the estimate for the expenditure and revenue of coming years".

Prof. Dalton's thought is that." The normal thought of balanced budget is that there is a gain in the income in a time period or it is not less in comparison of expenditure."

In Prof. Taylor's words," Budget is the most important financial plan of the government. Budget, presents combine the sured income and proposed expenditure's estimate for budget year."

Objectives of Budget

On the basis of budget, attempts have been made to achieve many targets. Following are the main objectives:
(1) Prepare budget structure for policy. For this, to achieve the targets, the work that will have to be done, takes the decision regarding this. This decision is to be taken that from different competitional optional proposals which one is to be choose so that, main national targets can be obtained. It is to be decided that can many targets be achieved combine.

(2) Budget is a medium to implement a policy. Here standard of work capacity and thriftiness has been implemented, means they try to get policy making regarding decisions on minimum estimate.

(3) Budget is a medium of implementation. All decisions regarding budget take a form of act. The reason to pressurise the law control is to stop the misuse of rights and to save public fund from misuses.

(4) Budget documents can be sources of providing information about the coming possibilities, activities of past, present decisions and future possibilities budget process provide offers for legislatives and executives that they can tell us the appropriateness of their decisions and functions.

Components of Government Budget

The budget comprises of the

(A)Revenue Budget

(B) Capital Budget

(A) Revenue Budget

The Revenue Budget shows the current receipts of the government and the expenditure that can be met from these receipts.

1. Revenue Receipts

Revenue receipts are divided into tax and non-tax revenues.

Tax revenues -Tax revenues consist of the proceeds of taxes and other duties levied by the central government.

Tax revenues, an important component of revenue receipts, comprise of

Direct taxes – which fall directly on individuals (personal income tax) and firms (corporation tax),

Indirect taxes like excise taxes (duties levied on goods produced within the country), customs duties (taxes imposed on goods imported into and exported out of India) and service tax.

2. Non-tax revenue of the central government mainly consists of **Interest receipts** (on account of loans by the central government which constitutes the single largest item of non-tax revenue)

- Dividends and profits on investments made by the government
- Fees and other receipts for services rendered by the government.
- Cash grants-in-aid from foreign countries and international organizations are also included

The estimates of revenue receipts take into account the effects of tax proposals made in the Finance Bill.

A Finance Bill, presented along with the Annual Financial Statement, provides details of the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget.

Revenue Expenditure

Revenue expenditure consists of all those expenditures of the government which do not result in creation of physical or financial assets.

It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to state governments and other parties (even though some of the grants may be meant for creation of assets).

Budget documents classify total revenue expenditure into **Plan and Non-plan expenditure**

Plan revenue expenditure - Plan revenue expenditure relates to central Plans (the Five-Year Plans) and central assistance for State and Union Territory Plans.

Non-plan expenditure- Non-plan expenditure, the more important component of revenue expenditure, covers a vast range of general, economic and social services of the government. The main items of non-plan expenditure are interest payments, defence services, subsidies, salaries and pensions. Interest payments on market loans, external loans and from various reserve funds constitute the single largest component of non-plan revenue expenditure. They used up 41.5 per cent of revenue receipts in 2004-05. Defence expenditure, the second largest component of non-plan expenditure, is committed expenditure in the sense that given the national security concerns, there exists a little scope for drastic reduction.

Subsidies are an important policy instrument which aim at increasing welfare. Apart from providing implicit subsidies through under-pricing of public goods and services like education and health, the government also extends subsidies explicitly on items such as exports, interest on loans, food and fertilizers.

B. The Capital Budget
The Capital Budget is an account of the assets as well as liabilities of the central government, which takes into consideration changes in capital. It consists of capital receipts and capital expenditure of the government. This shows the capital requirements of the government and the pattern of their financing.

Capital Receipts
The main items of capital receipts are loans raised by the government from the public which are called market borrowings, borrowing by the government from the Reserve Bank and commercial banks and other financial institutions through the sale of treasury bills, loans received from foreign governments and international organizations, and recoveries of loans granted by the central government.
Other items include small savings (Post-Office Savings Accounts, National Savings Certificates, etc.), provident funds and net receipts obtained from the sale of shares in Public Sector Undertakings (PSUs).

Capital Expenditure
This includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the central government to state and union territory governments, PSUs and other parties. Capital expenditure is also categorized as plan and non-plan in the budget documents.

Plan capital expenditure, - Plan capital expenditure, like its revenue counterpart, relates to central plan and central assistance for state and union territory plans.

Non-plan capital expenditure- Non- plan capital expenditure covers various general, social and economic services provided by the government.

Deficit of Budget

Meaning of Deficit budget- When a government spends more than it collects by way of revenue, it incurs a budget deficit. There are various measures that capture government deficit and they have their own implications for the economy.

Types of Deficit budget

Deficit budget are three type which are given as under
1 **Revenue Deficit Budget -** The revenue deficit refers to the excess of government's revenue expenditure over revenue receipts. It can be calculated-

Revenue deficit = Revenue expenditure – Revenue receipts.
The revenue deficit includes only such transactions that affect the current income and expenditure of the government.

Fiscal Deficit- Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing.

Gross fiscal deficit = Total expenditure – (Revenue receipts + Non-debt creating capital receipts)

Non-debt creating capital receipts are those receipts which are not borrowings and, therefore, do not give rise to debt. Examples are recovery of loans and the proceeds from the sale of PSUs.

Primary Deficit

Primary deficit is simply the fiscal deficit minus the interest payment

Gross primary deficit = Gross fiscal deficit – net interest liabilities

Net interest liabilities consist of interest payments minus interest receipts by the government on net domestic lending.