Fiscal divi...

Topic 3

Govt Budgeting

Govt budget :- A government budget is a statement of expected expenditure of the govt and the source of financing these expenditure during a financial year.

> Govt at all levels, central. state or local prepare budgets. Govt takes decisions on behalf of the people. It is therefore accountable to the people through legislature. Parliament, civic bodies etc.

Budget has 2 main parts

(i) Receipts (ii) Expenditure

(i) Receipts :- The receipts of the govt are of two types

(a) Revenue receipts (b) capital receipts

(a) **Revenue Receipts** :- are the current income receipts from all sources. Taxes, profits of public enterprises grants etc. govt is under no obligation to return the amount.

(b) **capital Receipts** :- are the borrowing of the government. Here govt is under obligation to return the amount along the interest.

Revenue Receipts :- (a) Tax revenue (b) Non-tax revenue

Tax Revenue :- A tax is a legally compulsory payment imposed on the people by the government

Direct tax	Indirect tax
Burden of tax cannot be shifted to other person.	Burden of tax can be shifted to another Person.

Here Liability or burden both lie on the same person ie ⇒ corporation tax, income tax, wealth tax, gift tax.	Here Liability of payment to govt lies on the seller and actual burden lies on the buyer ie :- service tax, sales tax custom duties, Union excise duties

(ii) Non tax revenue :- Income accruing to the govt from sources other than tax
- Interest receipts :- central govt department gives loans to the people, enterprises local government etc and receives interest in return.
- Dividends and Profits :- Central govt owns production units. These are called Public Sector enterprises who produce goods and services. eg Railways, Air India, Mahanagar Telephone Nigam. nationalised banks etc.
- External grants :- Govt departments receives financial help from foreign govt in the form of donations, gifts etc.

(b) capital receipts :- 3 main sources of capital receipts of central govt
- Borrowing :- Domestic borrowing, foreign borrowing
- Recovery of loans
- Resale of share of Public sector undertaking.

Domestic borrowing :- These are borrowing with in the country. Govt borrows from the financial market by issuing govt securities and treasury bills. Govt also borrow from people through various schemes like Public Provident fund, small saving schemes Indira vikas Patra.

foreign borrowing :- These are the borrowing from foreign countr

Expenditure

(i) capital vs Revenue expenditure

capital expenditure is expenditure on creation of assets. ie ⇒ constuction of building, roads, bridges, canals.

Revenue expenditure :- it is incurred on items like payment of salaries, maintenance of property

(ii) Plan vs Non plan expenditure :-

Provision of expenditure every year according to 5 yrs plans is plan expenditure.

Non plan expenditure :- Provision of expenditure on routine functions of govt during the year is non-plan expenditure

Deficits in Budget

(a) Budgetory deficit :- Excess of all budgeted expenditure over all budgeted receipts.

Budgetary deficit :- Total budget expenditure - total budget Receipts

(b) Fiscal deficit :- Excess of all expenditure over total receipts reduced by borrowings.

Fiscal deficit :- Total budget exp - total budget receipts net of borrowing

* Sources of financing deficit :-

3 sources by which the govt can finance the deficit :-

(a) Borrowing from public and foreign govts.

(b) withdrawing from its cash balances with Reserve bank of Ind

(c) Borrowing from the Reserve bank of India.

- The govt prefer to borrow from the public bcz borrowing from the public has no effect on money supply in the country. when govt borrows, money is transfered from the public to govt. The net effect of total money supply in the country is nil.
- on the other hand borrowing from RBI or withdrawing money from RBI leads to ↑ money supply. It may lead to rise in money supply and may lead to rise in Prices, may create many problems in the economy. govt may use this source only when no other source of financing is left.

Objectives of budgetary Policy

i) Providing effective administration

ii) Providing infrastructure facilities

iii) " employment opportunities.

(iv) Ensuring stability in Prices
(v) Reducing inequality of incomes :- Govt can do so by taxing the rich more and spending on the poor.
(vi) Promoting economic growth :- by setting up basic and heavy industries like steel, chemicals.
(vii) correcting the balance of payments deficit :-

* The Budgetary Process

→ Budget
→ Presentation of Budget :- The Budget is Presented in to Lok sabha in 2 parts
(i) Railway Budget.
(ii) General Budget
• The Budget is Presented to Lok sabha on such day as the President may direct.
• In an election year, the Budget may be presented twice first to secure a vote on Account for a few months and later in full.
→ Distribution of Budget Papers :- The Budget papers are made available to members after the finance minister's speech is over. The finance bill has been introduced and the house has adjourned for a day.
→ Discussion on the Budget :- No discussion on Budget takes place on the day it is presented to the house. Budgets are discussed in 2 stages :-
General discussion followed by detailed discussion and voting on the demands for grants.
→ Allotment of Time for discussion :-
→ General discussion on the budget :- Here the House is at liberty to discuss the budget as a whole or any question of principles involved therein but no motion can be moved. The Scope of discussion is confined to a examination of the general scheme and structure of the Budget whether the items of expenditure ought to be ↑ or ↓. The FM, or Railway Minister has the right to reply at the end of the discussion.
→ Consideration of the demands for grants by departmentally related standing committees of Parliament
• These committee are required to make their reports to

the house within specified time and make separate report on the demand for grants of each ministry.

- Discussion on Demonds for grants :- At this stage it is open to members to disapprove a policy pursued by a particular Ministry to suggest measure for economy in the administration of that Ministry. At this stage cut motions can be moved to reduce any demand for grants but no amendment to a motion seeking to reduce any demand is permissible.

Cut motions :- The motion to reduce the amount of demand for grants are called cut motion. The notice of the cut motions tabled up to 15.5 hours on a day printed and circulated before the day the relevant demand for grants to which they relate are to be taken up in the house. The speaker decides whether a cut motion is or is not admissible and may disallow any cut motion when in his opinion it is an abuse of the right of moving cut motions.

- cut motion seeking to discuss a matter affecting relations with a friendly foreign country or details of international administration of an autonomous body are out of order as also those which seek omission of a whole grant.
- Normally members of ruling party do not table cut motions.
- Circulations of List of cut motions
- Moving of cut motions
- Guillotine :- On the last day of the allotted days for discussion and voting on demands for grants, speaker puts every question necessary to dispose of all the outstanding matters in connection with the demand for grants. The guillotine concludes the discussion on demands for grants.

- Vote on Account :- Is passed by Lok Sabha after the general discussion on the budget is over and before the discussion on demand for grants is taken up

→ supplementary and excess demand for grants :-

• If money has been spend on any service during a financial year in excess of the amount granted or the service for that year, the President causes to be presented to Lok sabha a demand for such excess.

• All such expenditure brought to notice of Parliament by the comptroller and Auditor general of India through his report on the Appropriation accounts. The excesses are then examined by the Public Account committee.

→ cut motions to supplementary / excess demand for grants.

→ Appropriation Bill :- After the demand for grants have been passed by the house, a Bill to provide for the appropriation out of the consolidated fund of India of all moneys required to meet the grants and the exp. charged on the consolidated fund of India is introduced, considered and passed. The introduction of such bill cannot be opposed.

• No amendment can be proposed to an appropriation Bill which will have the effect of varying the amount or altering the destination of any grant or varying the amount of any expenditure charged on the consolidated fund of India.

→ Finance Bill :- Proposals by the govt of India for next following financial year. It is introduced after the presentation of budget, cannot be opposed. introduced without prior circulations of copies to members.

→ It contains taxation proposals, it is considered and passed by Lok sabha only after the demand for grants have been voted and total expenditure is known.

The Procedure for presentation of budget and its passing by Lok sabha is as laid down in A. 112-117 of the constitution of India, Rules 204-221 and 331 E of the Rules of Procedures and conduct of business in the Lok sabha.