**Public Finance Unit: - 6**

**Structure of the Public Budget**

**Class: - 1st**

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**Structure, Importance, Impact, Elements and Components of Public/Government Budget**

The government budget is an annual financial report that details revenues and outlays for a fiscal year. It is often proposed by the legislature, approved by the president or chief executive, and then delivered to the nation by the finance minister. An annual financial report outlining the government's anticipated spending and revenue production for the fiscal year is referred to as a "government budget." At the beginning of each fiscal year, the government presents it to the Lok Sabha as an estimate of its outlays and receipts. According to Article 112 of the Indian Constitution, the Government Budget has a constitutional character.

**Structure of Budget**

The budget has two parts: Receipts and Expenditures.

**Receipts**

The receipts of government show the different sources from which government raises revenue. These receipts are of two kinds:

1. Revenue receipts
2. Capital receipts

Revenue receipts are all forms of current income, including taxes, the earnings of public enterprises, grants, etc. The government's assets do not decrease or any liabilities are created as a result of revenue receipts. Capital receipts are government payments that either increase the government's liabilities or decrease its assets. For instance, borrowings, loan collection, and disinvestment, etc

### Revenue Receipts

Governmental revenue receipts are current sources of income that neither increase nor decrease the government's assets or liabilities. Both tax revenue and non-tax revenue are categories for these receipts.

**Tax Revenue**

A tax is a legally required sum of money that individuals and businesses must pay to the government of a nation without expecting to get anything in return. The government forces it upon the populace. Taxes like income tax, sales tax, service tax, excise duty, custom duty, and others are used by the government to raise money.

Tax money has historically been the main source of funding for governments. People who make money via wages, salaries, rent, interest, and profits are subject to income tax. The tax on the sale of goods is known as sales tax. Every time you buy something, a portion of our payment is used to pay the government's sales tax. When you utilize a service, like telephone service, you must pay service tax. Excise duty is a levy that the manufacturer of a good must pay. When a product is imported or exported, custom duty must be paid.

All taxes are of two kinds: **Direct taxes and Indirect Taxes**. This distinction between taxes depends on

* the liability of payment of tax to government
* the actual burden of tax

In the case of direct taxes, the same person is responsible for both the tax's payment obligation and its burden. For instance, income tax is a direct tax since it is paid in full by the person who must pay it. No one else can bear the tax burden for you. But with indirect taxes, this is not the case. For instance, even if the vendor of a good is responsible for collecting sales tax, the buyer is actually responsible for paying the tax. The final payer of the sales tax is the consumer, not the seller. By raising the price, the seller only gets the buyer to pay the tax, which is then given to the government.

Since producers recover all production-related taxes from consumers by raising the price of the product, all taxes on production are indirect taxes.

**Non-Tax Revenue**

Non-tax revenues are those that the government receives from sources other taxes. The following are the principal non-tax revenue streams for India's central government:

**Commercial revenue** is money the government receives in exchange for goods and services it delivers to the public, such as power and tolls, postal stamps, and railroad services.

**Administrative Revenue**: It arises on account of administrative services of the government. They are:

* + fees in the form of passport fees, government hospital fees, education fees, court fee, etc.
  + fine and penalties charged by government on law-breakers for disobeying rules and regulations.
  + licence fee and permit
  + income that government get by taking possession of property which has no legal claimant or legal heir.
  + interest receipts.
  + profits of public sector undertakings.

**Capital Receipts**

Capital receipts are those receipts of the government which either create liability or cause any reduction in the assets of the government. The major sources of capital receipts of the central government are:

1. Borrowings
2. Recovery of Loans
3. Disinvestment - Resale of shares of public sector undertakings

**Borrowings**

There are two sources from which the central government borrows. They are:

1. Domestic Borrowings: The government borrows from domestic financial market by issuing securities and treasury bills. It also borrows from people through various deposit schemes such as Public Provident Fund, Small Savings Schemes, and National Savings Scheme. These are borrowings of the government within the country.
2. External Borrowings: In addition to domestic borrowings the government also borrows from foreign governments and international bodies like International Monetary Fund (IMF), and World Bank. Foreign borrowings by the government bring in foreign exchange into the domestic economy.

**Recovery of Loans**

Quite often state and local governments borrow from the central government. The loans recovered by the central government from state and local governments are capital receipts in the budget because recovery of loans reduces debtors (assets).

**Disinvestment**

Since 1991, the central government has started mobilising financial resources through this very recent source of capital receipts. Prior to 1991, all of the stock in public sector organisations belonged to the federal government. The government started implementing the privatisation of public sector enterprises in 1991. As a result, it began offering its shares for sale to both the general public and financial institutions. Disinvestment of public sector undertakings is the term used to describe the government's sale of its stake in these companies.

**Expenditure**

Government expenditure is classified in two ways

1. Capital and Revenue Expenditure
2. Plan and Non-Plan Expenditure

**Capital Expenditure and Revenue Expenditure**

Capital expenditures are expenses incurred by government to either develop assets, such as schools and hospitals, roads, bridges, canals, railway lines, etc., or to reduce liabilities, such as loan repayment, etc. However, a government expenditure is referred to as a revenue expenditure if it neither increases an asset nor decreases a liability. Examples of revenue expenditures include paying government officials' wages, maintaining public property, and offering citizens free access to health and education services. None of these turn into public assets.

**Plan Expenditure and Non-Plan Expenditure**

Following its independence, India chose the strategy of planning for economic growth. Planning entails making provisions in the government budget for expenses that must be incurred annually in accordance with the priorities stated in the five-year plans. Plan expenditure is the name given to such an expense. In addition to planned expenses, the government also has ongoing costs, such as those for the judiciary, parliament, the military, the water supply, sanitation, and health systems, among other services. Such recurring spending is referred to as unplanned spending.

## Importance of Government Budget

* It establishes a foundation for policy development.
* Budgeting is a tool for putting policies into action.
* A budget is a tool for legal oversight.
* It's a tool for holding people accountable.
* It is a management tool.
* It is a measure of economic policy

## Impact of Government Budget

The impact of the government budget on society is threefold:

* Resource allocation based on public welfare and social priorities
* Micro-managing expenditures help to establish fiscal discipline
* Introduced excellent programs to ensure that products and services are distributed efficiently to each one.