A government Budget is basically as an annual statement of all the estimated receipts and estimated expenditures of the government in a fiscal year from 1 April to 31 March. Though the word “Budget” does not finds mention in the Constitution, but it is mandated in Article 112 that the Union government shall present before the Parliament an “Annual financial Statement” of estimated receipts and expenses of the Government.

The Objectives of Government Budget in India:

In a mixed economy like ours, the government plays a significant role along with the private sector. The three major functions served by this presentation of estimates.

1. **Allocation function**: Public goods (national defense, roads, government administration, measures of lower air pollution, etc.) can’t be provided by Market Mechanism (transaction between individuals).
2. **Distribution function**: Government can alter income distribution by making transfer payments and collecting taxes, therefore affecting personal disposable income of households. Thus, through its tax and expenditure policy government tries to achieve a fair income distribution in society.
3. **Stabilization function**: Fluctuations in economy may lead to inflation and unemployment. Government policy measures to stabilize domestic economy.

Primary Difference between Public and Private Goods:

1. Benefit of public goods available to all, not limited to any particular consumer. Also one individual can enjoy the benefits of public good without reducing its availability to others.
2. For public goods, there is no way to exclude anyone from enjoying benefits of the good. (They are non-excludable). Since non-paying users can’t be excluded, hence difficult to collect fees for public good. Leads to “free-rider” problem. To combat this missing link between consumer & producer government has to provide public good and make public provisions.

Public provision – financed through budget and made available free of any direct payment. Such goods can be directly produced by government or by private sector.

Components of Government Budgeting in India
Constitution mandates presentation of a statement of estimated receipts and expenditures of government in financial year from 1 April to 31 March before the Parliament, under Article 2.

The Annual Financial Statement is the Budget is divided into Revenue and Capital.

**Revenue Budget of Government of India:**

The current receipts of government are included in the revenue budget. Estimated expenditure from these.

Revenue receipts take into account effect of tax proposals in Finance Bill as well. Finance Bill – provides details of imposition, abolition, alteration, remission, or regulation of taxes proposed in Budget. It is presented along the Budget.

**Revenue Receipts:**

Non-redeemable, i.e., can’t be reclaimed from the government). The revenue receipts are divided into Tax revenue and Non-tax revenue.

**Tax Revenue:** proceeds of taxes and duties levied by central government. It is divided into direct taxes and Indirect taxes.

**Direct Taxes:** collected directly from firms(corporation tax) & individuals(income tax). Also includes Paper taxes(wealth tax, gift tax and estate duty) because low revenue yield.

**Indirect Taxes:** Excise tax(duties on goods produced within country), customs duties(taxes on imported goods & exported goods), Service tax(tax on services since 1994 to correct disparity in taxation of goods & services)

- Income tax progressive to achieve redistribution objective, higher income more tax.
- Corporation tax proportional basis. Tax rate in proportion to profit.
• Excise duty necessities of life excluded or exempted/low rate, comfort moderate tax, luxuries, tobacco and petroleum production heavy tax.

**Non Tax Revenue:** interest receipts on loans given by central government, dividends or profits in investment of government, fees & other receipts for services rendered by government. Also, cash grants-in-aid received from foreign countries and international organisations.

**Revenue Expenditure:**

Expense other than creation of physical or financial assets of central government, which means expenditure for normal functioning of government departments(day to day working)

• interest payments on debt taken by government
• grants to state government and others(even for creation of assets).

Budget classifies expense into – Plan expenditure and Non Plan expenditure

**Plan revenue expenditure:** It is related to central plan(FYP) and central assistance to states and UTs Plans.

**Non Plan revenue expenditure:** It covers general, economic & social services of government.

• Interest payments on market loans, external loans.
• defence services(can’t be reduced)
• Subsidies(important policy instrument for welfare)
• Salaries and pensions.

**Capital Budget of Government of India:**

Assets and liabilities of central government. Changes occurring capital is considered, shows capital requirements of government and pattern of their financing.

**Capital Receipts:**

Receipts creating liabilities, and reducing financial assets. These are:

• Market Borrowings: Loans raised from public.
• Treasury Bills: Borrowings from RBI and other commercial banks and FIs through treasury bills.
• Loans received from foreign government and international organisation.
• Recoveries of loans granted by central government.
• Small savings in PO savings account, National Saving Certificate, etc.
• Provident Fund
• PSU disinvestment (receipts from sale pf share in Public Sector Undertakings).

**Capital Expenditure:**
Expense which result in creation of physical or financial asset. Reduction in financial liabilities. They are:

- Expenditure on Land acquisition, building machinery, equipment.
- Investment in shares
- Loans & advances by Central government to states and UTs, PSUs or others.

Also classifies as Plan and non-Plan expenditures.

**Plan Capital Expenditure:**

Related to central plan, central assistance to States and UTs.

**Non Plan Capital Expenditure:**

Covers general, social and economic services by government.

**Other documents under the FRBM Act**

Along with Budget, there are three other Policy Statements mandated by FRBM Act (Financial Responsibility & Budget Management).

- **Medium Term Fiscal Policy Statement:**
  - Sets 3 year rolling target for specific fiscal indicators.
  - Examines if revenue expense can be financed through revenue receipts on sustainable basis.
  - How productivity capital receipts (including market borrowing) are being used.

- **Fiscal Policy Strategy Statement:**
  - Sets priority of government in fiscal area
  - Examining current policies
  - Justifying any deviation in important fiscal measures.

- **Macroeconomic Statement:**
  - Assesses economy prospects with respect to GDP growth rate
  - Fiscal balance of central government
  - External balance (gender budgeting which highlights gender sensitivities of budgetary allocations).