UNIT 11 REVENUE AND EXPENDITURE BUDGETS

Structure

11.1 INTRODUCTION

It will be proper to say that budget is rather important as a policy document and signaling the policy strategies that the economy is about to embark upon. The budget apart from being an accounting exercise , documents what has been the state intervention in the year gone by and project where state is intending to make a difference to the economy and in what way and in what sectors. Unfortunate, budget documents suffer from being complicated and non transparent. Whereas inherently a budget of such a big & complex economy is naturally complicated, the budget as is presented is even more than is strictly essential. The technical jargon and the account codes do not help either. Thus, one finds citizens at large not aware of what of what exactly a budget is expected to do and hence in an uninformed way commenting on it.

In this unit, we will discuss the meaning of the Budget, how Budget of government are different from that of a individual family budget, private or public limited company. What are the features of a good budget? What do the budgets look like, besides this, various components of the budget –what is the Revenue budget and various sources, What is the Expenditure budget and various components of expenditure. How are this budget, determining ratios and the compositions of the budget? It is hoped that this unit would help you in understanding the budget , its various components and able to context it with the their local government budget

11.2 OBJECTIVES

After studying this Unit, you would be able to

- explain the public budget and the process involved to govern the budget;
- examine the public budget, are able to visualize the context with the home country budget. Aware of budgetary classification , its adequacy, and its distributions;

- define a public budget and the process governing the budget ;
- define revenue budget and its components of the public budget;
- discuss expenditure budget and components of the public budget ; and
- explain what do Budgets look like.

11.3 BUDGET

Budget of state government must be distinguished from that of a individual family budget, private or public limited company. It is not a mere exercise in the balancing of books of account. It is not a document prepared by an accountant for an accountant. It has large implications for the rate of growth of development, human resource development, reduction of poverty, provision of safety net for the poor and underprivileged, and so on. Every member of the public has, therefore, a vital stake in what finds a place in the budget and what gets omitted there from.

The Budget is the annual fiscal exercise that attracts a huge amount of interest, as it is a plan that sets goals, outlines resources to meet these goals, provides details of the government's receipts and payments, and frames the taxation policies for the country

Budget is a comprehensive statement of government finances, including spending, revenues, deficit or surplus, and debt. The budget is usually the government’s main economic policy document, indicating how the government plans to use public resources to meet policy goals. As a statement of fiscal policy, the budget shows the nature and extent of the government’s impact on the economy. The budget is prepared by executive and then generally is submitted to the legislature to be reviewed, amended, and adopted as law. The budget documents provide vital information on the distribution of financial resources. Since money is power, the distribution of money in favour of certain classes /religion empowers them. Besides one gets primary information on almost every schemes and programme undertaken by the government every vital issues of the developments.

Issac Shairo[1] , 2001, defines *The budget is technically the document that includes the government's expenditure and revenue proposals , reflecting its policy priorities and fiscal targets. But the budget document is just one facet or manifestation of an on-going budget decision –making process, and of a country's system for managing and assessing its spending and tax policies. Looking at any one aspect of the overall budget system in isolation misses the important interaction between the various parts*

The budget of a country is governed by a legal framework that defines who is responsible for the budget or various aspects of it, the process for developing and implementing the budget , how money can be raised, and on what money can or must be spent.

11.4WHO ARE INVOLVED IN A GOVERNMENT BUDGET PROCESS?2

Different role-players are typically involved at different stages of the budget process:

• The budget drafting or formulation stage takes place largely within the **executive** branch of the state. This part of the process is usually managed and co-ordinated by a specific office – typically the budget office in the ministry of finance. The drafting stage often involves balancing

[1] Issac Shairo , ed., A guide to budget work for NGOs, Washington, D.C.: The International budget project, 2001, pp.23-24

[2] Budget Analysis for People Centered Advocacy **Participation, Communication and Legitimacy - *ActionAid International***

the needs and proposals derived from various government departments against the priorities set by political office-bearers and fiscal advisors.

• The enactment of the budget gives the **legislature** the opportunity to debate and ultimately approve the budget. This part of the process usually begins with the executive formally proposing the budget to the legislature. The legislature then discusses the budget, often including intensive work in legislative committees. In some countries, this phase involves public hearings where members of **civil society** can give input on the budget proposals. It is typically during the budget enactment stage that public attention on the budget is greatest and information about the budget is most broadly disseminated by the **media.**

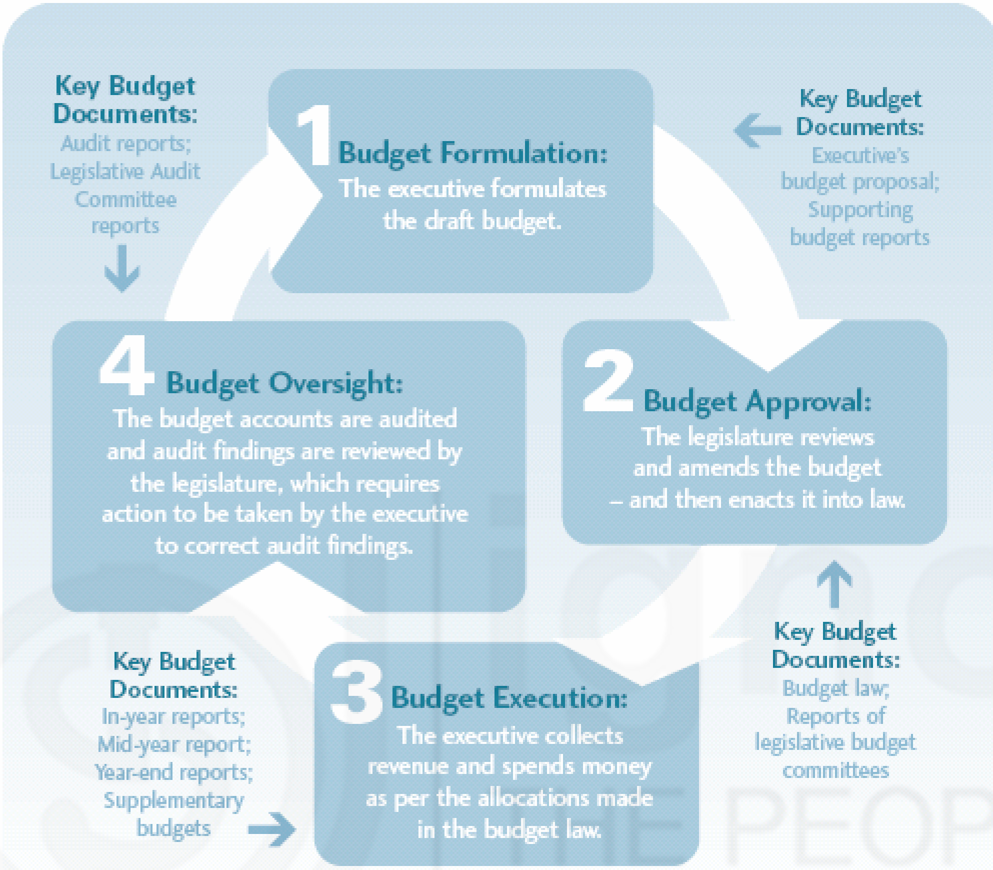
• The third stage in the budget cycle involves the implementation of the budget and monitoring of spending. The key role-players during this stage therefore include **departmental officials and service-providers** responsible for programme implementation. Governments differ widely in how they regulate and monitor spending to ensure adherence to budgets. In some cases, the **treasury** (or finance ministry) exercises strong central control over spending, reviewing allocations to departments and approving major expenditures. Where departments are more independent, treasuries will monitor expenditures by requiring, for instance, regular reporting by each department on its spending. In most countries, the **executive** (led by the finance ministry) issues regular public reports on the status of expenditure during the year in different programmes and sectors.

• During the final stage in the budget cycle, the budget is assessed and audited to see whether the budget has been implemented as planned and whether funds have been used effectively. Ideally during this stage, the **executive** branch reports extensively on its fiscal activities to the **legislature** and to the **public**. In addition, the implementation of the budget is reviewed by an established, independent and professional body, such as an audit institution or an **Auditor General**.

The above mentioned process is budget cycle usually has four stages (refer to Chart):

- formulation, when the executive branch puts together the budget plan;
- enactment, when the legislature debates, alters, and approves the budget plan;
- execution, when the government implements the policies in the budget; and
- Auditing and legislative assessment, when the national audit institution and the legislature account for and assess the expenditures made under the budget.

Chart 1: The Budget Cycle[3]



In India , in Article 202 of the constitution mentions about the main budget document as **Annual Financial Statement** which has to be laid before the legislature by the respective governors. It consists of an introductory note bringing out the overall financial position (estimated summary of all the receipts and expenditures of the government) along with the salient aspects of budget dealing with

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3 Vivek Ramkumar , Our Money, Our Responsibility: A Citizens' Guide to Monitoring Government Expenditures, The International Budget Project, pg. 6

i) Actuals of the earlier year

ii) Budget estimates of the current year

iii) Revised estimates of the current year and

iv) Budget estimates presented for the year that follows

Revised Estimates

After the budget is presented at the beginning of the year, many developments take place during the course of the year which necessitate a review and revision of the budget. This is a regular exercise undertaken during the course of the year and based on the anticipated excess Expenditure or savings made under different grants, the revised estimates are prepared. These are backed by supplementary demands in the Budget Session, wherever these estimates revealed expenditure in excess of the sanctioned grants. Where savings are foreseen, the administrative departments are required to surrender them in good time in accordance with the time-table laid down for the purpose. Similar revised estimates are prepared in respect of the receipt head also.

Articles 266 and 267 of India's constitution States, the basic structure of Government budget and accounts classification – as (**A) Consolidated Fund of the State, (B) Contingency Fund of the State and (C) Public Account**

(A) Consolidated Fund of the State (Part I of the Accounts) this is the first and the most important part of the Government accounts. All the tax and non-tax receipts are credited and all expenditure of Government is debited to the Consolidated Fund of the State. The Consolidated Fund of the State has been defined in the Article 266 (1) of the Constitution. According to that definition "all revenues received by Government, all loans raised by Government by issue of treasury bills, loans or ways and means advances and all money received by Government in repayment of loans" form one consolidated fund to be entitled the **"Consolidated Fund of the State"**. All expenditure of the State Government is incurred by debit to the Consolidated Fund of the State. However, prior approval of the Legislature is necessary for incurring this expenditure. For this purpose, it is necessary to follow the procedure laid down in Article 204 of the Constitution. Accounts of all the receipts credited to and expenditure met from the Consolidated Fund of the State are required to be kept in the manner and format prescribed for all the State Governments and the Central Government by the Comptroller and Auditor General of India (CAG).

(B) Contingency Fund of the State - (Part II of the Accounts)

This is in the nature of an imprest. The Government under its authority of Article 267 of the Constitution establishes it by giving a debit to the Consolidated Fund. The corpus of the Fund is drawn upon by the Government to meet expenditure of an emergent and urgent nature which could not be foreseen at the time of the framing of the annual budget estimates and which is so urgent that it cannot wait till the following session of the Legislature in which prior approval to the expenditure would normally have been obtained by presenting supplementary demands. Expenditure met from the Contingency Fund is got approved by the Legislature post facto by presenting supplementary demands which explain in detail the urgency of the expenditure.

Example: - Emergent expenditure necessitated by a natural calamity like floods, is incurred by withdrawing an advance from the Contingency Fund. The expenditure is brought to the notice of the Legislature subsequently through a supplementary demand.

(C) Public Account (Part III of the Accounts)

The scope of Public Account is defined in Article 266 of the Constitution. This section records transactions in respect of which Government functions as a banker. Here the Government incurs the liability to repay the money received or has a claim to recover the amount paid. For example, the money deducted from the salaries of employees as provident fund subscriptions gets credited to the Public Account (Receipt side) and all payments to employees out of their provident fund accumulations are debited to the Public Account (Disbursement side). Similarly Deposits received from works contractors for public works, irrigation projects, etc are credited to the Public Account and when the deposits are returned the payments are made by debit to the Public Account. The Government thus has only the custody of the accumulations in the Public Account and has no ownership over them. Consequently for payments out of the Public Account, unlike as in the case of the Consolidated Fund of the State, no approval of the State Legislature is necessary.

As mentioned earlier that different country has the legal framework governing their own national budget that defines who is responsible for the budget or various aspects of it, the process for developing and implementing the budget. In general the presentation of the budget in which revenues from all sources and spending for all activities is included. In countries where the budget is divided into pieces (for instance, where there is separate budget for "Revenue" and "Expenditure" or "Current or "Capital Expenditure") the consolidate budget combines these pieces. It may also include extra-budgetary institutions. In some cases, the term may also refer to combine budgets of different level of government (federal, state, and local).

Check Your Progress Exercise 1

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this U nit.

1. Think about your country. Where would you find the pieces of the legal framework governing your national budget? Jot down a few points about governed by a legal framework that defines who is responsible for the budget or various aspects of it, the process for developing and implementing the budget , how money can be raised, and on what money can or must be spent.

11.5REVENUE BUDGET

Any public budget will include sources of revenue and Expenditure. In this section we will look into the sources of revenue. Revenue the annual income collected from taxes by the government as a result of its sovereign powers. Typical revenues include individual and corporate income taxes, payrool taxes, sales taxes, excise taxes. Governments typically raise two type of revenue: **taxes and non-tax revenue**.

A tax is a compulsory transfer from individuals and businesses to the government. A tax is not paid in return for any specific government activity. The following are the most common type of taxes:

- Consumption taxes (eg., value –added taxes (VATs), general sales taxes, customs duties/excise taxes[4]). These are known as “indirect “taxes, because consumers do not pay them directly to the government, but through business.

- Income taxes, imposed on individuals on income earned through work or investment, on business on corporate profits[5]. These are “direct” taxes, because they paid directly to the government.

Sources of non-tax revenue are diverse, and includes:

- Grants from international institutions and foreign government
- User fees for government services (Health , Education)
- Fees on extraction of natural resources (oil, Minerals, timber ,etc.)
- Open market borrowings from domestic or foreign , Interest receipts and dividends

In India, a major part of the revenue raised is from indirect taxes like sales tax, entertainment tax, stamp duties etc. at the state level. Direct taxes constitute a very small proportion of the overall revenue. Income Tax is largely the responsibility of the central government and state governments have little or no authority to levy direct taxes (as India has federal set up wherein centre-state fiscal relations are agreed upon on the formula for devolving resources to the states). The sales tax, which is a major source of revenue for the state, taxes like excise and

[4] A tax levied on the consumption of particular goods. These may be levied to raise government revenue, and are often levied at higher rates on goods whose consumption is believed to have adverse effects on public health, public order, or the environment. Excise duties on alcoholic drinks, tobacco, and petrol are widely used for both purposes.

[5] A tax on the profits of firms, as distinct from taxation of the incomes of their owners.

customs duties, and entry tax are decided by the central government. The central government does not want to give this power to the states, as it would erode its income base and source of revenue.

While in the United States a considerable proportion of the taxes is raised at the national level, a substantial part of the revenue is raised at the state and local levels as well. The total revenue raised from taxes in the United States constitutes 30% of its national economy. Two-thirds of this amount is raised at the federal level while one-third is raised at the state and local levels. So, there is a greater degree of devolution of power at the state and local levels in the United States than there is in India where taxes are mainly raised at the state level. Devolution problems are, by and large, broadly similar across countries.

Taxation should be looked at in tandem with consumption. It is necessary to see what kinds of services are being consumed by which segment of the population before taxing or subsidizing them. For instance, it is only the rich farmers that benefit from a subsidy on diesel or urea prices, not the poor marginal farmers. Also, the costs of subsidizing medical education are passed on to the poor in the form of user charges on health services. Another example is that of the road tax. A person driving 300 kilometers per month will be paying the same tax as a person driving 3000 kilometers. Rather than having a general road tax, it would be better to tax the consumption of diesel or petrol.

In a case Massachusetts, the benefits from tax cuts during the 1990s in Massachusetts for the low, middle, and high income people. All of the tax cuts gave $7 a year in benefits to low income people. This was not a lot of money and it is little wonder why people think government is not responsive towards their needs. Middle income people saved only $226 a year, equivalent to less than $20 a month. The richest one percent, the very high-income people in

Massachusetts, with an average income of over half a million dollars a year, had an annual tax saving of nearly $16,400. From the tax policy in the budget it is obvious that the government was giving away huge tax breaks to people who had the highest incomes while people who really struggle to make their ends meet and saw their incomes fall during the 1980s and 1990s hardly benefited.

In urban areas in India, the poor are often penalised for not paying taxes. It is argued that as the poor do not pay taxes, municipal corporations should not provide them with any kind of civic amenities. This, however, is untrue as 70% of revenue going to corporations is from Octroi (tax on transport of goods), which has a higher incidence on the poor. In addition, property taxes are skewed in favour of older settlements as newer settlements are being subject to a greater degree of taxation. Another issue of contention is that of subsidies. For instance, subsidies on water benefit the rich more than the poor as the rich consume more water in comparison to the poor.

From the above cases it shows that government through various taxation policies raises the revenue. The Revenue side of the budget, specifically taxation policy, can also have direct redistributive effects, through impacts on disposal income , which can either benefit or disadvantage certain sectors in society , such as women and the poor

One can expect that the state can do better in targeting benefits at lower income groups by making the budget more responsive to their needs. The country follows various types of taxes for revenue generation which are broad categories as:

Types of Taxes

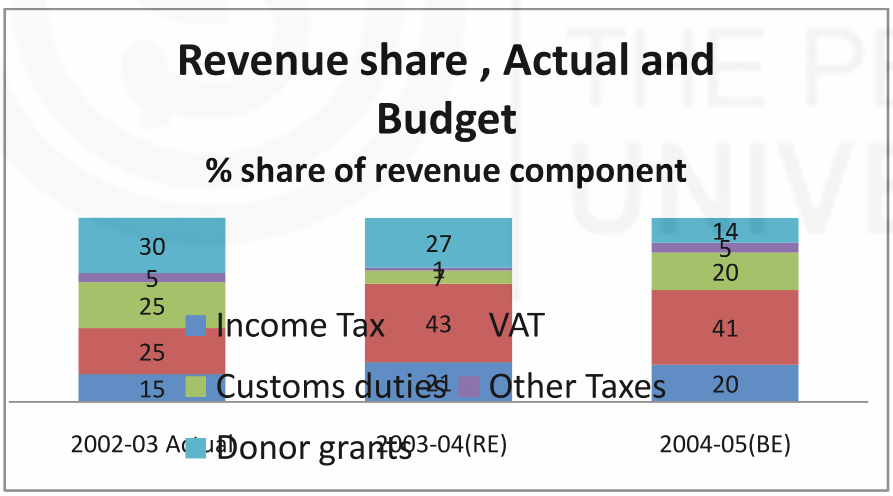
- A regressive tax is one in which the tax represents a smaller share of a person's income as his or her income rises. Example Poll tax or head tax, where taxpayers pay the same amount regardless of their income

- A proportional tax is one in which the tax represents the same share of income for all taxpayers

- A progressive tax is one in which higher-income people pay a larger a share of their income than lower-income people pay.

Following is the Government revenue of X country , reflecting the principal sources of revenue share over the time (from 2000 and 2006) by preparing the stacked bar chart /

Stacked bar chart



Check Your Progress Exercise 2

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this U nit.

1. Think about your country. Jot out the principal sources of revenue of your government, how money is raised by which types of taxes, is the system regressive or progressive. The rate of increase or decrease in the different source of revenue

11.6 EXPENDITURE BUDGET

The following section explains the expenditure budget.

11.6.1 The term expenditure refers to government spending made to fulfill a government obligation. Expenditures can be capital or current. Capital expenditures are investments in physical assets such as roads and buildings that can be used for a number of years. Current expenditures are spending on wages, benefits payments and other goods and services that are consumed immediately.

In India, for instance, there is legislative act defined in the Constitution on Budget (both revenue and expenditure) on what need to go through the legislature for approval. The Expenditure is either **'Charged'** or **'Voted'**. 'Charged' expenditure as defined in the Constitution is that which is charged on the Consolidated Fund of the State and is not subject to the vote of the Assembly. This expenditure can, however, be discussed in both the Houses of the Legislature. Governor's establishment, decretal charges, etc, are some of the examples of 'charged' expenditure. All other expenditure is subject to the vote of the Assembly.

The expenditure comprises

(a) Revenue expenditure - The expenditure on Legislature, State administration, tax collection, debt servicing and interest payments[6], pensions, grants-in-aid to various institutions, and also **expenditure on current consumption of goods and services of the departments of Government on activities of non-capital character are booked as revenue or current expenditure**.

(b) Capital expenditure - This is the expenditure incurred by Government with the object of either acquiring or creating assets of a material and permanent character or with a view to reducing recurring liabilities. Examples are acquisition of land, construction of buildings, roads and bridges, irrigation and power projects, purchase of equipment and machinery, stocks

(c) Expenditure under debt heads - This section includes provisions on account of repayment of Central and other loans, repayment of ways and means advances, market loans etc. It also includes provisions made for loans and advances paid by the State Government for various purposes.

A mismatch in the expected revenue and expenditure can result in revenue deficit. Revenue deficit arises when the government's actual net receipts is lower than the projected receipts. On the contrary, if the actual receipts are higher than expected one, it is termed as revenue surplus. A revenue deficit does not mean actual loss of revenue. Let's take an hypothetical example, if a country expects a revenue receipt of Rs 100 and expenditure worth Rs 75, it can result in net

[6] Interest payment is the payment that a government makes on its borrowings to the creditors

revenue of Rs 25. But the actual revenue of Rs 90 is realized and expenditure is Rs 70. This translates into net revenue of Rs 20, which is Rs 5 lesser than the budgeted net revenue and called as revenue deficit

The difference between total revenue and total expenditure of the government is termed as fiscal deficit. It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included. Generally fiscal deficit takes place due to either revenue deficit or a major hike in capital expenditure. Capital expenditure is incurred to create long-term assets such as factories, buildings and other development. Normally capital expenditure is expected to be met out of borrowed funds and accumulated cash balances including the surplus revenues of previous years.

A deficit is usually financed through borrowing from either the central bank of the country or raising money from capital markets by issuing different instruments like treasury bills and bonds.

11.7SOME OF THE VIEWS OF DIFFERENT EXPERTS ON FISCAL DEFICIT?

Economists differ widely on their views on fiscal deficit. According to John Maynard Keynes, a deficit prevents an economy from falling into recession, while another school of thought is that a country should not have fiscal deficit.

Many economists think that if the deficit is financed by raising debt from the central bank it may lead to an inflationary scenario. Higher fiscal deficit is one of the reasons for the Indian economy to have relatively higher inflation.

Check Your Progress Exercise 3

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this U nit.

1. From any budget document you have indent the type of expenses incurred. Thinks about the different spheres, such as health, education, defence. What would be examples of capital expenditure in these spheres? Current or operating expenses?

11.8 WHAT DO BUDGETS LOOK LIKE

We might have seen our institutional budget or family budget. The family budget is different to that of institutional budget because some people in the institute have followed some processes to make it look like this way. Government also have a process that makes the budget document look like this. When we opens up any page in the budget, pages are full of number and allocation; and these numbers under various heads (sub categories) are because there are processes and people behind this who have made it look like this and followed a process to come at this amount.

Different ways the Public budgets are constructed and classified, the broad three ways the public budget are followed are: Administrative classification, Economic classification and functional classification.

Administrative classification shows which government entity (department, ministry or agency) will have responsibility for spending a fund allocation and will ultimately be held accountable for its use

Economic classification: Provides information on the nature of expenditure, and arranges expenditures and receipts of the entity into significant economic categories which distinguish:

- Operating (current/revenue) outlays/expenses from capital outlays/expenses
- Spending for goods and services from transfer to individuals and institutions.
- Tax receipts from other types of receipts, and from borrowing and inter-governmental loans and grants

Functional classification: Specifies how much is being allocated to different purposes in accordance with the priorities of the budget entity. Functional classifications indicate the programmatic purpose or objective for which the funds will be used (e.g. health, education, and defense).

Let's take a look at the different formats or classifications:

BUDGET CLASSIFICATIONS

1: Budget presented by *administrative* classification

Ministerial Classification	**Departmental Classification**
Ministry of Human Resource Development	Dept. of Elementary Education Dept. of Higher Education Dept. of Women and Child Development
Ministry of Transportation	Dept. of Railway Transportation Dept. of Aviation
Ministry of Rural Development	Dept. of Land Resources Dept. of Drinking Water Dept of Rural Development

2: Budget presented by *economic* classification

	Expense	Sub head	List of units
	Current Expenses	Goods and services Interest Payments Subsidies and current transfers	Wages and Salaries Employee benefit schemes Other goods and services
	Capital Expense		
		Acquisition of fixed capital assets	MRI (equipment) in all 300 and above beded hospitals
		Capital transfers	

3: Budget presented by functional classification

Functional Classification	**Sub Functional Classification**
Defense	Military Defense Civil Defense Foreign Military Aid R & D – Defense
Public order and Safety	Police Services Fire Protection services Law Courts Prisons
Economic Affairs	General Economic, Commercial and labor affairs, Agriculture, Forestry, Fishing and

	Hunting Fuel and energy Mining, Manufacturing and Construction Transport Communication
Health	Medical Products, Appliances, and Equipments Outpatient services Hospital Services Public Health services
Education	Pre-primary and Primary Education Secondary Education Tertiary Education Subsidiary Services to Education

B. Examples of three budget classifications for the current year budget for the X country:

Table 1

Administrative Classification	**In 000s of $**
Ministry of Education	
Administration & Planning	1,000
Primary Education	15,000
Secondary education	6,000
Higher education	11,000
Further education and	2,000

Table 2

Economic classification	**In 000s of $**
Ministry of Education	
Compensation of Employees	15,000
Goods and services	
Travel and subsistence	1,000
Consultants and contractors	2,000
Communications	500

training Quality promotion and development	3,000
Total	38,000

Inventory	5,000
Transfers and subsidies	
Universities	5,000
NGOs	500
Payment for capital assets	
Building and other fixed structures	8,000
Machinery and equipments	1,000
	38,000

Table 3

Functional classification	**In 000s of $**
Education Sector	
Pre-Primary and Primary Education	17,5000
Secondary Education	6,000
Higher Education	14,000
Vocational Education	2,000
Education not definable by level	200
R&D Education	2,000
	41,700

11.9SUMMING UP

Let a look at the three examples of budget classifications. In the economic classification shows an amount of $5 million under transfers of subsidies to universities. The administrative classification shows that $11 million is budgeted for the higher education. In the economic classification, where do you think the difference of $6 million might be reflected? The budget for primary education differs between the administrative classification ($15 million) and the functional classification? To answer these questions, The economic classification give the details estimate whereas, the administrative classification has very broad list of items. The difference of $ 6 million can be either items in sub category of payment for capital assets or from Goods and Services. So in the budget details one would have to look for the additional information for finding the reason for such difference. The answer to the second question is that in the administrative classification the ministry of education does not cover some of the component. The hypothetical answer can be that $ 17.5 million include $ 15million from ministry of education and remaining of Ministry of Women and Child of supplement nutrition program.

Check Your Progress Exercise 4

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this U nit.

4. Think about your country. What might you be able to learn relevant to that situation from each of the three types of budget classifications? From any budget document you have can you put down what type of the classification is used and does the different classification provide you different figure for the same issue.

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11.10 GLOSSARY

Charged expenditure: Such expenditure as is not subject to the vote of the Legislative Assembly and is declared to be charged on the Consolidated Fund of the State under the provisions of the Constitution of India or by the Legislature of the State by law.

Demand for grant: It is a proposal made to the Legislature on the recommendation of the Governor for appropriation of sums out of the Consolidated Fund of Maharashtra for expenditure on a particular service not charged on the revenues of the State.

11.11 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1. The Finance Ministry (budget division) is primarily responsible for the preparation of the union budget. It initiates the process for the coming year by issuing an annual budget circular around the last week of August/ first fortnight of September each year. The annual budget circular directs the various ministries and departments at the centre to provide the **budget estimates**, **revised estimates** and **the Actuals**. It also lays down a detailed time-table for the various stages of the budgetary process. The importance of the time-table lies in the fact that budget preparation, presentation and implementation is a time-bound programme. The information provided by the departments and ministries must include the budget estimates and revised estimates of the Plan expenditure for the financial current year, the budget estimates and revised estimates of the Non-planned expenditure for the current financial year and the non-plan expenditure for the next financial year. Thereafter, the ministries and departments present the budget estimates of the Plan expenditure after consultation with the central Planning Commission. The various departments and ministries are also involved in consultations with the Finance Ministry to finalize the estimates of non-plan expenditures. Based on these processes, the various departments prepare and send the Final statements of budget estimates to the Finance Ministry. Based on the information provided by the departments and ministries about the expected requirement of funds, the Finance Ministry starts the process of preparing the estimates of Revenue receipts for the next financial year. This involves the Budget division of the Finance Ministry finalizing the estimated figure of non-tax

revenue receipts for the government. The revenue department of the Finance Ministry looks into the tax revenues that can be collected in the next financial year. Once the figures are estimated, the Finance minister examines the budget proposals that include the proposals of funds required and proposals of sources of receipts. Subsequently, the finance minister consults the Prime Minister and briefs the Union Cabinet about the budget. It is during this time that the Finance Minister also holds meetings with interest groups such as business groups and trade unions. The preparatory stage of the budgetary process of the union ends with the finance Minister taking permission of the President of India to present the budget in the parliament. The constitution of India directs the union budget to be presented on such a day as the president may direct. However, it has now become a convention to present the union budget in the Lok Sabha on the last working day of the month of February every year. The budget is introduced in the Parliament by the Finance Minister through what is called the 'budget speech' subsequent to which it is presented before the Rajya Sabha. The members of Parliament can access the budget document only after the Finance Bill has been introduced in the Lok Sabha. The discussion on budget in Lok Sabha is conducted in two stages: first, a general discussion and second, a detailed discussion and voting on demands for grants. In the first stage, the broad outlines of the budget along with the policies of the government are reviewed and critiqued in both the houses of the legislature. Neither any motion is moved at this stage nor is there any voting on budget. Subsequent to this, the demands for grants included in the budget are examined by the Standing Committees of the Parliament comprising of members of both the houses of the Parliament. These Standing Committees are to submit their report within a specified period of time. The detailed discussion and voting on demands for grants begins in Lok Sabha once the Standing Committees have presented their reports. With regards to any demands for grants, the Lok Sabha can accept or reject or reduce the grant made under the demand but it has no right to propose a higher grant under the demand. Reduction of the demand for a grant can be made through passing a cut motion. Since it is almost impossible to have detailed discussion on each of the demands for grants, the last day of the voting period all pending demands are put before the Lok Sabha for voting. This is known as 'Guillotine'. This is followed by the introduction of the Appropriation Bill by the government in the Lok Sabha. Once it is enacted, the government gets authorization to spend money from the Consolidated Fund of India. In the next stage, the Finance Bill is taken up for consideration in Lok Sabha. Once approved, the Finance bill authorizes the government to go ahead with the tax proposals. The parliament's role in relation to budget is not over yet. It is also responsible for undertaking a review of the implementation of the budget. It does so through the **Public Accounts Committee**, **Estimates Committee**, **Committee on Public Undertakings**, and the **Department Related Standing Committees**. Another institution involved in this process is the **Comptroller and Auditor General** that is responsible for auditing the Government's accounts once the budget is implemented.

Check Your Progress Exercise 2

1. In India, a major part of the revenue raised is from indirect taxes like sales tax, entertainment tax, stamp duties etc. at the state level. Direct taxes constitute a very small proportion of the overall revenue. Income Tax is largely the responsibility of the central government and state governments have little or no authority to levy direct taxes (as India has federal set up wherein centre-state fiscal relations are agreed upon on the formula for devolving resources to the states). The sales tax, which is a major source of revenue for the state, taxes like excise and customs duties, and entry tax are decided by the central government. The central government does not want to give this power to the states, as it would erode its income base and source of revenue.

Check Your Progress Exercise 3

1. Operating expenditure

Check Your Progress Exercise 4

1. Yes. Administrative, Economic and functional classification

11.12 REFRENCES

Issac Shairo , ed., A guide to budget work for NGOs, Washington, D.C.: The International budget project, 2001, pp.23-24

"Women and Tax in South Africa", idasa , South Africa , 2000.
http://www.internationalbudget.org/resources/library/womenSA.PDF

"A Taste of Success" , IBP, http://www.internationalbudget.org/resources/suucess.htm.

"Managing Government Expenditure, Asian Development Bank, 1999.
http://www.adb.org/documents/manuals/govt expenditure/

11.13 QUESTIONS FOR REFLECTION AND PRACTICE

1. Would proposed tax reforms be of more help to the rich or poor? Does the tax system take a large share of the income of low-income people of high-income people? In the words of tax analyst, is the system progressive or regressive? To answer this question what do you think how much understanding is needed on the various sources of revenue and details of how taxes are levied?
2. Would do begin only looking into one side of the budget say revenue or expenditure where these two are two side of the budgetary coin;
3. What budget book would you refer for understanding the budget?