Indian Fiscal System

1. Fiscal System : It refers to the management of revenue and capital expenditure finances by the state. Hence, fiscal system includes budgetary activities of the government that is revenue raising, borrowing and spending activities.

2. Fiscal Policy : Fiscal Policy refers to the use of taxation, public expenditure and the management of public debt in order to achieve certain specified objectives.

3. Indian Fiscal System includes or refers to the management of revenue sources and expenditure of the Central and State governments, Public debt, Deficit financing, Budget, Tax structure etc.

4. Sources of Revenue for Centre : The revenue of the Central Government consists of the following elements : (i) Tax revenue and (ii) Non-tax revenue. Tax revenue comes broadly from three sources - (a) taxes on income and expenditure (b) taxes on property and capital transactions (c) taxes on commodities and services. Non-tax revenue, consists of- (a) currency, coinage and mint (b) interest receipts and dividends; and other non - tax revenue.

5. Sources of Revenue for State : The main sources are (a) state tax revenue (b) share in central taxes (c) income from social, commercial and economic service and profits of state-run enterprises. State tax revenue includes among others, land revenue, stamp, registration and estate duty etc.

6. Expenditure of the Centre : The central government makes expenditures broadly under two heads : (i) Plan expenditure and (ii) Non-Plan expenditure.

7. Under Plan expenditure comes outlay for agriculture, rural development, irrigation and flood control, energy, industry and minerals, transport, communications, Science and Technology, environment and economic services etc.

8. The major non-plan expenditures are interest payments, defence, subsidies and general services.

9. Expenditure of State : Like the Union Government, the State Governments too have two broad heads of expenditure : (a) Non - Development Expenditure; and (b) Development Expenditure.

10. Public debt of the government of India is of two kinds- Internal and External.

11. Internal debt : It comprises loans raised from the open market, compensation bonds, prize bonds etc. treasury bills issued to the RBI, commercial banks etc.

12. External debt : It consists of loans taken from World Bank, IMF, ADB and individual countries like USA, Japan etc.

13. Deficit Financing is a fiscal tool in the hands of the government to bridge the gap between revenue receipt and revenue expenditure.
Deficits

In a budget statement, there is a mention of four types of deficits :

(a) revenue

(b) budget

(c) fiscal

(d) primary

(a) Revenue Deficit refers to the excess of revenue expenditure over revenue receipts. [In fact, it reflects one crucial fact : what is the government borrowing for ? As an individual if you are borrowing to play the house rent, then you are in a situation of revenue deficit, i.e. while you are borrowing and spending, you are not creating any durable asset. This implies that there will be a repayment obligation (sometime in the future) and at the same time there is no asset creation via investment.]

Revenue Deficit = Total Revenue Expenditure - Total Revenue Receipts = Non-plan Expenditure + Plan Expenditure - (net tax revenue + non tax revenue)

(b) Budget Deficit refers to the excess of total expenditure over total receipts. Here, total receipts include current revenue and net internal and external capital receipts of the government.

Budget Deficit = Total Expenditure - Total Receipts = (non-plan expenditure + plan expenditure) — (Revenue Receipts + Capital Receipts)

(c) Fiscal Deficit refers to the difference between total expenditure (revenue, capital, and loans net of repayment) on one hand; and on the other hand, revenue receipts plus all those capital receipts which are not in the form of borrowings but which in the end accrue to the government.

Fiscal Deficit = Revenue Receipts (net tax revenue + non-tax revenue) + Capital Receipts (only recoveries of loans and other receipts) - Total Expenditure (plan and non-plan)

(d) Primary Deficit refers to fiscal deficit minus interest payments. In other words, it points to how much the government is borrowing to pay for expenses other than interest payments. Also, it underscores another key fact : how much the government is adding to future burden (in terms of repayment) on the basis of past and present policy.

Primary Deficit = Revenue Deficit **-** Interest Payments

Monetised Deficit = Increment in Net RBI Credit to the Central Government.

Budget

1. The Budget of the Government of India, for any year, gives a complete picture of the estimated receipts and expenditures of the Government for that year on the basis of the budget figures of the two previous years.

2. Every budget, for instance, gives three sets of figures : (a) actual figures for preceding year, (b) budget and revised figures for the current year, and (c) budget estimates for the following year.

3. The core of the budget is called the Annual financial statement. This is the main budget document. Under article 112 of the constitution, a statement of estimated receipts and expenditure of the Govt, of India has to be laid before the parliament in respect of every financial year running from April 1 to March 31 while under article 202 of the constitution a statement of estimated receipts and expenditures of the state Governments has to be laid before the house of the state legislature concerned.

4. The Annual Budget of the Central Government provides estimates of receipts and expenditures of the Government. The Budget consists of two parts viz; (i) Revenue Budget (ii) Capital Budget.

5. **Revenue Budget :** All "current" 'receipts' such as taxation, surplus of Public enterprises, and 'expenditures' of the Government.

6. **Capital Budget :** All "Capital" 'receipts' and 'expenditure' such as domestic and foreign loans, loan repayments, foreign aid etc.

7. Finance Bill is ordinarily introduced every year to give effect to the financial proposals of the Government for the following financial year.