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 revenu sourc and expenditure of the Central and State governments, Public debt, Deficit f anci g, B dget, Tax structure etc.

4. Sources of Revenue for Centre : The revenue of the Cent al Gov nment consists of the following elements : (i) Tax revenue and (ii) Non-ta re nue. Tax venue comes broadly from three sources - (a) taxes on income and exp nditure) taxes on property and capital transactions (c) taxes on commodities and s vices. Non tax revenue, consists of- (a) currency, coinage and mint (b) int receip s and dividends; and other non - tax revenue.

5. Sources of Revenue for State : The ain urces ar (a) state tax revenue (b) share in central taxes (c) income f om social, mercial and economic service and profits of state-run enterprises. State tax r enue includes among others, land revenue, stamp, registration and estate dut e

6. Expenditure of the Cent : The cen al government makes expenditures broadly under two heads : (i) Pla pend ure and (ii) Non-Plan expenditure.

7. Under Plan expe diture com s outlay for agriculture, rural development, irrigation and flood contro ener y, indust y and minerals, transport, communications, Science and Technol gy, en ronmen d economic services etc.

8. The majo on-plan xpenditures are interest payments, defence, subsidies and general rvices

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

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 expe diture ove revenue receipts. [In fact, it reflects one crucial fact : what is the g er ent b rowing for ? As an individual if you are borrowing to play the hou e rent, th 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 rep yment bligation (sometime in the future) and at the same time there is no et creation via investment.]

Revenue Deficit = Total Reven e Exp nditur Total Revenue Receipts = Non-plan Expenditure + Plan Expendi r - (net ta revenue + non tax revenue)

(b) Budget Deficit ref rs o the cess of total expenditure over total receipts. Here, total receipts include urrent revenue nd net internal and external capital receipts of the government.

Budget D ficit Total Expenditure - Total Receipts = (non-plan expenditure + plan exp nditure) — nue Receipts + Capital Receipts)

(c) Fisc l Defic refers to the difference between total expenditure (revenue, capital, and loans ne of repayment) on one hand; and on the other hand, revenue receipts plus all those capital re ipts which are not in the form of borrowings but which in the end accrue to the governmen

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 compl te icture f the estimated receipts and expenditures of the Government for that y on th asis o the budget figures of the two previous years.

2. Every budget, for instance, gives three sets of figures (a) ac ual figures for preceding year, (b) budget and revised figures for the cu nt year, d (c) budget estimates for the following year.

3. The core of the budget is called the Annua financial atement. This is the main budget document. Under article 112 of the con itution, a atement of estimated receipts and expenditure of the Govt, of India has o be la d befor the parliament in respect of every financial year running from April 1 o March 31 while under article 202 of the constitution a statement of estimat d receip and expenditures of the state Governments has to be laid before the h se o the s te legi ature concerned.

4. The Annual Budget of the C ntral Government provides estimates of receipts and expenditures of the Go ernment. T e Budget consists of two parts viz; (i) Revenue Budget (ii) Capital B dget.

5. **Revenue B dget :** ll "cu ent" 'receipts' such as taxation, surplus of Public enterprise and expenditures' of the Government.

6. **Capital B get :** All "Capital" 'receipts' and 'expenditure' such as domestic and foreign lo s, loan epayments, foreign aid etc.

7. Finance Bil is ordinarily introduced every year to give effect to the financial proposals of the G vernment for the following financial year.