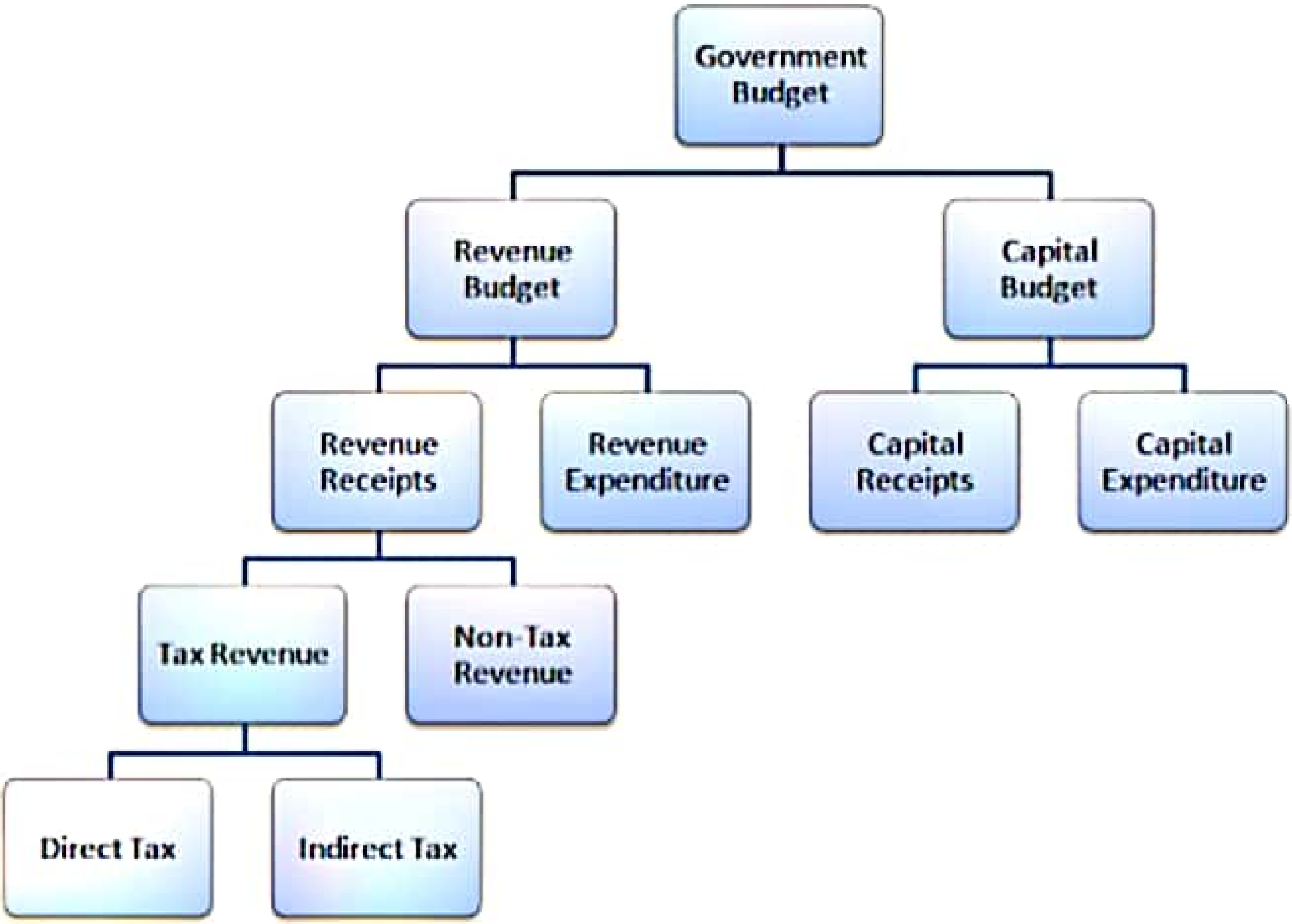

Government Budget
Revenue Budget
Capital Budget
Revenue Receipts
Revenue Expenditure
Capital Receipts
Capital Expenditure
Tax Revenue
Non-Tax Revenue
Direct Tax
Indirect Tax

Budget is most important information document of the government. One part of the government's budget is similar to company's annual report. This part presents the overall picture of the financial performance of the government. The second part of the budget presents government's financial plans for the period upto its next budget.

So, every citizen of a nation from the common man to the politician is eager to know about the budget as they would like to get an idea of the :-

1. Financial performance of the government over the past one year.
2. To know about the financial programmes & policies of the government for the next one year.
3. To know how their standard of living will be affected by the financial policies of the government in the next one year.

Definitions of Budget

According to Tayler, "Budget is a financial plan of government for a definite period".

According to Rene Stourm, "A budget is a document containing a preliminary approved plan of public revenues and expenditure".

Components of Government Budget

The main components or parts of government budget are explained below.

1. Revenue Budget

This financial statement includes the revenue receipts of the government i.e. revenue collected by way of taxes & other receipts. It also contains the items of expenditure met from such revenue.

(a) Revenue Receipts ↓

These are the incomes which are received by the government from all sources in its ordinary course of governance. These receipts do not create a liability or lead to a reduction in assets.

Revenue receipts are further classified as tax revenue and non-tax revenue.

i. **Tax Revenue** :-

Tax revenue consists of the income received from different taxes and other duties levied by the government. It is a major source of public revenue. Every citizen, by law is bound to pay them and non-payment is punishable.

Taxes are of two types, viz., Direct Taxes and Indirect Taxes.

Direct taxes are those taxes which have to be paid by the person on whom they are levied. Its burden can not be shifted to some one else. E.g. Income tax, property tax, corporation tax, estate duty, etc. are direct taxes. There is no direct benefit to the tax payer.

Indirect taxes are those taxes which are levied on commodities and services and affect the income of a person through their consumption expenditure. Here the burden can be shifted to some other person. E.g. Custom duties, sales tax, services tax, excise duties, etc. are indirect taxes.

government provides variety of services for which fees have to be paid. E.g. fees paid for registration of property, births, deaths, etc.

2. **Fines and penalties** : Fines and penalties are imposed by the government for not following (violating) the rules and regulations.

3. **Profits from public sector enterpri**

(b) Revenue Expenditure ↓

i. **What is Revenue Expenditure ?**

Revenue expenditure is the expenditure incurred for the routine, usual and normal day to day running of government departments and provision of various services to citizens. It includes both development and non-development expenditure of the Central government. Usually expenditures that do not result in the creations of assets are considered revenue expenditure.

ii. **Expenses included in Revenue Expenditure** :-

In general revenue expenditure includes following :-

1. Expenditure by the government on consumption of goods and services.
2. Expenditure on agricultural and industrial development, scientific research, education, health and social services.
3. Expenditure on defence and civil administration.
4. Expenditure on exports and external affairs.
5. Grants given to State governments even if some of them may be used for creation of assets.
6. Payment of interest on loans taken in the previous year.

iii. **India's Defence Expenditure** :-

In 2006-07, Defence expenditure of the central government of India was Rs. 51,542 crores.

2. Capital Budget

This part of the budget includes receipts & expenditure on capital account projected for the next financial year. Capital budget consists of capital receipts & Capital expenditure.

(a) Capital Receipts ↓

i. **What are Capital Receipts ?**

Receipts which create a liability or result in a reduction in assets are called capital receipts. They are obtained by the government by raising funds through borrowings, recovery of loans and disposing of assets.

ii. **Items included in Capital Receipts** :-

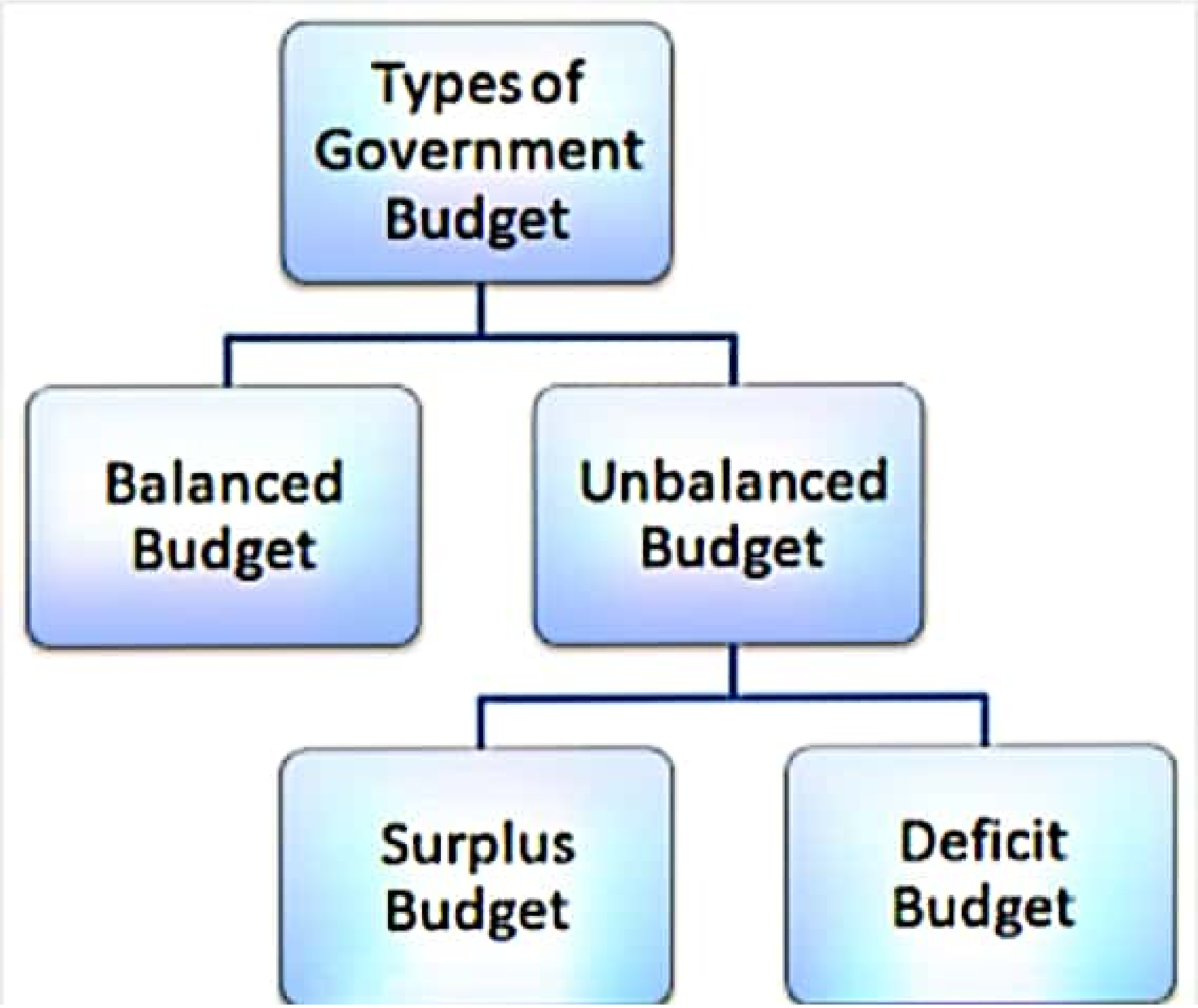
The main items of Capital receipts (income) are :-

1. Loans raised by the government from the public through the sale of bonds and securities. They are called market loans.
2. Borrowings by government from RBI and other financial institutions through the sale of Treasury bills.
3. Loans and aids received from foreign countries and other international Organisations like International Monetary Fund (IMF), World Bank, etc.

(b) Capital Expenditure ↓

i. **What is Capital Expenditure ? :-**

Any projected expenditure which is incurred for creating asset with a long life is capital expenditure. Thus, expenditure on land, machines, equipment, irrigation projects, oil exploration and expenditure by way of investment in long term physical or financial assets are capital expenditure.


Types of Government Budget
Balanced Budget
Unbalanced Budget
Surplus Budget
Deficit Budget

A. Balanced Budget ↓

Balanced budget is a situation, in which estimated revenue of the government during the year is equal to its anticipated expenditure.

Government's estimated Revenue = Government's proposed Expenditure.

For individuals and families, it is always advisable to have a balanced budget.

B. Unbalanced Budget ↓

The budget in which income & expenditure are not equal to each other is known as Unbalanced Budget.

Unbalanced budget is of two types :-

1. Surplus Budget
2. Deficit Budget

1. Surplus Budget

The budget is a surplus budget when the estimated revenues of the year are greater than anticipated expenditures.

Government expected revenue > Government proposed Expenditure.

Surplus budget shows the financial soundness of the government. When there is too much inflation, the government can adopt the policy of surplus budget as it will reduce aggregate demand.