International Conference on Innovative Research in Engineering, Management and Sciences
International Journal of Scientific Research in Computer Science, Engineering and Information Technology
© 2019 IJSRCSEIT | Volume 4 | Issue 9 | ISSN : 2456-3307

Journey of Union Budget in India

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ABSTRACT

Every year, country governments world over envisage on preparing and presenting to their people a proposal called budget. Through this mechanism the government shares its plan of future course of action, particularly in terms of its revenues and expenditure for a period of one year called the fiscal year. In India also, this exercise is in practice since a long time. Our finance minister has the privilege of presenting the union budget to the parliament every year in the month of February. Our first budget was presented by James Wilson way back on 18th February 1869. The first finance minister of the independent India Sir R.K. Shanmugham Chetty, who was not a member of the congress presented the first Indian budget on 26th Nov 1947. Morarji Desai has the distinction of presented 10 budgets for the country which is the maximum number so far presented by an individual in India. Carrot and stick budget was presented by VP Singh in the year 1986. The Epochal budget was presented by Dr. Man Mohan Singh which transformed the EXIM policy. In the year 1997 P. Chidambaram presented a dream budget which resulted in the moderation of tax base. This resulted in an overall improvement in income tax collections. Balanced economic growth with a focus on equality and social justice has been the cornerstone of union budget in India. Among others, the Economic growth, Reducing poverty, Creating employment opportunities, Reducing inequalities in society thereby giving way for redistribution of Income, allocation of resources, curtailing inflation, ensuring economic stability and management of public enterprises are the broad guiding principles within which the union budget is prepared. Analysis of budgets revenues and expenditure over a period of time reveals that major heads of governmental revenues comes from Corporate tax, Income tax, Customs, Union excise duties, Service tax & other taxes, Non-tax revenues, Non-debt capital receipts, Borrowings & other liabilities. Similarly, major heads of governmental expenditure is on States share of taxes and duties, Finance commission and other transfers, Subsidies, Defence, Interest payments, Central sector schemes, centrally sponsored schemes and other expenditure & Pensions. A secondary analysis of revenues and expenditure in Indian budgets does not show much change as a proportion in the governmental revenues and expenditure between 2017 and 2019.

Key words: Budget, Revenues, Expenditure, Finance Minister, Taxes, Duties.

I. INTRODUCTION

Every year, the finance minister presents the Union Budget to the Parliament. Budget is an estimate of income and expenditure of our country generally for a year. It is presented in the month of February and after deliberations and revisions will become effective from the next financial year starting from 1st of April. Our union budget has under gone a remarkable history over the years.

History of Union Budget in India: Our first budget was presented by James Wilson on 18th February 1869. The first finance minister of the independent India Sir R.K. Shanmugham Chetty, the erstwhile Diwan of Cochin state was not a member of the congress who presented the first Indian budget on 26th Nov 1947, followed by the budget of 1948. After his resignation as the Finance Minister, John Mathai presented the subsequent budgets for the years 1949-50 and 1950-51. The budget 1949-50 is considered as a budget for a really united India as it included all the princely states. It was decided to have the planning commission and five year plans. His successor C.D. Deshmukh had the biggest challenge of finding money for the five year plans as this meant for higher taxes. He tried to woo the taxpayers. The budgets of the 1950's saw foreign aid inflows coming from nations like the US, UK, USSR and its allies like the Czechoslovakia and the Romania. TT Krishnamachari who replaced Deskmuch in the year 1957 levied wealth tax and the expenditure tax. Morarji Desai presented 10 budgets which is the highest number of budgets presented so far. In his 1968 budget he removed the stamping and assessment of goods by the excise department at the factory gate. In order the boost manufacturing a system of self assessment of manufacturers was introduced which also reduced the administrative burden on the excise department. Spouse allowance was withdrawn when both the wife and husband were tax payers.

Carrot and stick budget was presented by VP Singh in the year 1986. It was revolutionary in terms of Indirect tax reforms. Enforcement directorate was given more powers to act against tax evaders and curbing corruption. The epocahal budget was presented by Dr. Man Mohan Singh which transformed the EXIM policy and regulated balance of payment position of India. In the year 1994, the service tax was introduced. In the year 1997 P. Chidambaram presented a dream budget which resulted in the moderation of tax base. There was an overall improvement in income tax collection.

Basic Framework for Budgeting in India: Balanced economic growth with a focus on equality and social justice has been the cornerstone of union budget in India. Among others, the Economic growth, Reducing poverty, Creating employment opportunities, Reducing inequalities in society thereby giving way for redistribution of Income, Allocation of resources, curtailing inflation, ensuring economic stability and management of public enterprises are the broad frameworks within which the Finance minister thinks about the framing the union budget.

Variants of Union Budgets: Considering the amount of estimated receipts and expenditure of the union government for the ensuing financial year, the union budget may be either classified as balanced budget or surplus budget or deficit budget. A balanced budget is one when the governments estimated receipts are equal to its expenditure. This means that the estimated receipt's and estimated expenditure are neither more nor less, they will be same. In practice, balanced budget is not a reality as estimated receipts and estimated expenditure may not be same. If the amount of governments estimated receipts are more than its expenditure, it can be said that the budget is a surplus budget. This only means either the government is taking more by way of taxes from its citizens or the government is not pumping its revenues into the economic system. Surplus budgets are suggested in times of severe inflation due to excess demand. Countries like Germany, Hong Kong, South Korea, Qatar, Norway, UAE, Oman, Singapore, and Denmark have surplus budgets in recent times. When the amount of governments estimated expenditure is more than its Income, it can be said that the budget is a deficit budget. Countries like India, Argentina, Bhutan, USA, UK have deficit budgets in the recent times.

Economists differ in their view on the surplus budget and the deficit budget. Adam smith advocated the fact that the government expenditure should never be more than the government revenues. He suggested balanced budget for the governments. However, Keynes was against a balanced budget as the governments expenditure will fall short of the amount required to be spent for fuller employment. He was of the opinion that the government should increase expenditure to reduce the gap between the essential expenditure for full employment and the expenditure that can be spent by the governmental revenues. The governments can cover this gap either by way of borrowings or drawing from its reserves.

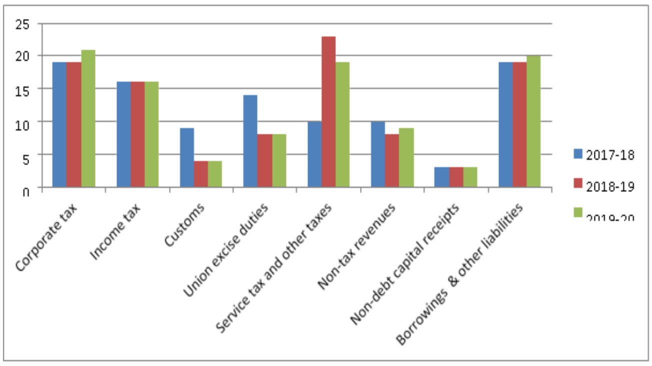
Heads of Governmental Revenues: Considering the various heads of government revenues, the major heads includes Corporate tax, Income tax, Customs, Union excise duties, Service tax and other taxes, Non-tax revenues, Non-debt capital receipts, Borrowings & other liabilities.

II. PATTERN OF HEADS OF GOVERNMENTAL REVENUES (2017 TO 2019)

Heads of Governmental Revenues	2017-18	2018-19	2019-20
Corporate tax	19	19	21
Income tax	16	16	16
Customs	09	04	04
Union excise duties	14	08	08
Service tax and other taxes	10	23	19
Non-tax revenues	10	08	09
Non-debt capital receipts	03	03	03
Borrowings & other liabilities	19	19	20
Total	100	100	100

In the year 2019-20, in a rupee that the government receives by way of its revenues, 21 paisa was budged to come from the corporate tax and 20 paisa from the borrowings and other liabilities. Receipts by way of service tax and other taxes increased from 10 paisa to 23 paisa in the year 2018-19 and again decreased to 19 paisa in the year 2019. For every one rupee that the government receives, 16 paisa is budged to come from income tax. Receipts by way of Union excise duties have got reduced from 14 paisa to 8 paisa in the year 2019-20. Non tax revenues constituted about 8 to 10 paisa for every rupee that the government receives.

III. DIAGRAMMATIC REPRESENTATION OF HEADS OF GOVERNMENTAL REVENUES (2017 TO 2019)



Heads of Governmental Expenditure: Considering the heads of government expenditure, the major heads include the State's share of taxes and duties, Finance commission & other transfers, Subsidies, Defence expenditure, Interest payments, Central sector schemes, Centrally sponsored schemes, Other expenditure and Pensions.

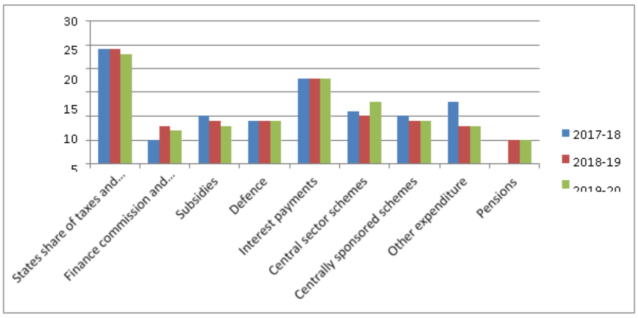
V. PATTERN OF HEADS OF GOVERNMENTAL EXPENDITURE (2017 TO 2019)

Heads of Governmental Expenditure	2017-18	2018-19	2019-20
States share of taxes and duties	24	24	23
Finance commission and other transfers	05	08	07
Subsidies	10	09	08
Defence	09	09	09
Interest payments	18	18	18
Central sector schemes	11	10	13
Centrally sponsored schemes	10	09	09
Other expenditure	13	08	08
Pensions	-	05	05
Total	100	100	100

Out of the rupee the central government spends, about 24 paisa was budgeted for giving away to different states their share of taxes and duties. This is one major receipt to all the state governments. The budgetary allocation for this head got reduced to 23 paisa for the year

2019-20. Between 5-8 paisa was budgeted for finance commission and other transfers from 2017-20. The budgetary allocations for subsides got decreased from 10 paisa for the year 2017-2018 to 9 paisa for the year 2018-19 and to 8 paisa for the year 2019-20. About 9 paisa was allocated for defence expenditure during all the years. The government also borrows. As a result the need for the interest payment arises. The budgetary allocations for the payment of interest stood at 18 paisa for all the three fiscals. Central sector schemes and centrally sponsored schemes accounted for 21 paisa during 2017-18, 19 paisa for the year 2018-19 and 22 paisa for the fiscal 2019-20, other expenditure and pension stood at 13 paisa for all the three years.

VI. DIAGRAMMATIC REPRESENTATION OF HEADS OF GOVERNMENTAL EXPENDITURE (2017 TO 2019)



To conclude, budget is the economic policy of the union government for the coming fiscal year. It chalks out the direction in which the economic and business activities should happen in the country. It assumes importance in the backdrop that through the budgetary exercise the central government, allocates its precious resources among different alternatives of expenditure. It pushes hard to create employment opportunities and eliminate poverty in the country. It strives for equitable redistribution of wealth and will aim at reducing disparity of income. It's another focus will be on maintaining price stability and working on refining the tax structures. An analysis of the proportion of governmental revenues and expenditure on different heads between 2017-19 does not reveal major change. However, there is a need to decrease borrowings thereby reducing the interest payments and channelizing the same for the developmental activities.

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