5 Public Finance

General Budget

- It is an annual financial statement of income (receipts) and spending (expenditure) of the government for a particular financial year.
- The financial year starts from 1st April and ends on 31st March.
- Under Article 112 of the Constitution, a statement of estimated receipts and expenditure of the Government of India has to be laid before Parliament in respect of every financial year. This statement titled 'Annual Financial Statement' is the main Budget document.
- The Annual Financial Statement shows the receipts and payments of the government under the three parts in which government accounts are kept, Consolidated Fund, Contingency Fund and Public Account.
    - **The Consolidated Fund of India**
        - It draws its existence from Article 266 (1) of the Constitution.
        - All revenues received by the government, loans raised by it, and also its receipts from recoveries of loans granted by it, form the Consolidated Fund.
        - All expenditure of government is incurred from the Consolidated Fund and no amount can be withdrawn from the Fund without authorisation from Parliament.
        - The Comptroller and Auditor General of India audit this fund.
    - **Public Account of India**
        - It draws its existence from Article 266 (2) of the Constitution.
        - Money held by the Government in trust is kept in the Public Account such as Provident Funds, Small Savings collections, etc.
        - Funds in the public account do not belong to the Government and have to be finally paid back to the persons and authorities, who deposited them.
        - It does not require Parliamentary authorization for withdrawals.
    - **Contingency Fund of India**
        - It draws its existence from Article 267 of the Constitution.
        - It authorizes the existence of a Contingency Fund of India, which is placed at the disposal of the President of India to facilitate meeting of urgent unforeseen expenditure by the Government.
        - Parliamentary approval is required for such unforeseen expenditure.
        - The corpus of the Contingency Fund as authorized by Parliament presently stands at ` 500 crores.
- The Reserve bank of India, being a banker of the government, manages these three funds.
- **Set of Figures in General Budget**
    - **Actual Estimates:** Estimates of expenditure and receipts of the preceding financial year.
    - **Provisional Estimates:** Estimates of revenue and expenditure of the current financial year.
    - **Budget Estimates:** Estimates of the coming financial year.
- The estimates are arrived at by one of the following three methods:
    - **Advanced estimates:** These estimates are made before the actual occurrence of economic activity.
    - **Revised Estimates:** These estimates show the contemporary situation. It is basically a current estimation of either the budgetary estimates or the provisional estimates. It gives interim data. These estimates are based on changes in the economic scenario or actual occurrence of some economic activities.
    - **Quick Estimates:** These estimates are based on sample surveys. Information gathered from the sample is used to predict the overall economic activity.

	❐ It is of two types: ❍ **Short Term Capital Gains Tax (STCGT):** It is charged when an investment is held for less than 36 months and is calculated on the basis of income bracket one falls in. ❍ **Long Term Capital Gains Tax (LTCGT):** It is charged when an investment is held for a longer period which is more than 36 months.
Securities Transaction Tax	❐ Levied on the value of securities traded in the stock market. ❐ This means that every time one buys or sells shares, a tax is charged on them.
Estate Tax	❐ Also known as Inheritance tax. ❐ It is raised on an estate or the total value of money and property that an individual has left behind after their death.
Commodities Transaction Tax	❐ It is imposed on the transaction of commodities in commodity exchanges. ❐ It was introduced in 2013-14.
Fringe Benefit Tax	❐ It is fundamentally a tax that an employer has to pay in lieu of the benefits that are given to his/her employees. ❐ The list of benefits encompass a wide range of privileges, services, facilities or amenities which were directly or indirectly given by an employer to current or former employees. ❐ It was introduced in 2005-06.
Interest Tax	❐ It is the tax that banks deduct when total interest income is more than ` 10,000 in a year. As the interest earner is directly liable to pay tax, thus it is a direct tax.
Equalization Levy	❐ It was introduced in the Finance Act, 2016 as a measure of tax evasion. ❐ The equalization levy of 6% is levied at business-to-business transactions in the digital advertising space that is, the income accruing to foreign ecommerce companies from within India. ❐ It is intended to address the disparity in tax treatment between domestic companies and foreign companies that are able to earn without being subject to income tax on those profits, neither in a state where the premiums are collected nor in the state of residence.

❐ **Indirect Tax**
- ❍ The tax which has incidence and impact at the different points i.e. tax burden is on different people and is paid by different people.
- ❍ It is a tax levied by the Government on goods and services and not on the income, profit or revenue of an individual.
- ❍ It is proportional in nature.
- ❍ In this, the tax burden can be shifted from one taxpayer to another.
- ❍ It has the effect of raising the price of the products on which they are imposed.

Indirect Taxes (Central Levies)	
Service Tax	❐ It is a tax levied by the government on service providers on certain service transactions, but is actually borne by the customers. ❐ It is categorized under Indirect Tax and came into existence under the Finance Act, 1994. ❐ It is subsumed under GST
Custom Duty	❐ It is the tax imposed on exports and imports of goods. ❐ Duties levied on imports of goods are termed as import duty while duties levied on exported goods are termed as export duty. ❐ Countries around the world levy custom duties on import/export of goods as a means to raise revenue and/or shield domestic institutions from predatory or efficient competitors from other countries.
Excise Duty	❐ It is levied by the Central Government of India for the production, sale, or license of certain goods. ❐ Excise duty charges are also collected by state governments for alcohol and narcotics. ❐ It was replaced by the GST.
Central Sales Tax	❐ Tax levied on sales generated during inter-state trade and commerce in a country. ❐ It is an origin based tax on customers and is payable in the state where a particular product is sold. ❐ It is also subsumed under GST.