Yogoda Satsanga Mahavidyalaya
Department of Commerce
Semester VII

Subject: Money, Banking and Finance
Topic: Government Budget-Meaning and Components

Meaning of Government Budget

A Government Budget is an annual financial statement showing the estimated receipts (income) and expenditure (payments) of the government during a financial year.

In **India**, the financial year runs from **1 April to 31 March**.

The budget is mainly divided into **two parts**:

1. **Revenue Budget**
2. **Capital Budget**

1. Revenue Budget

The Revenue Budget shows the revenue receipts and revenue expenditure of the government.

(A) Revenue Receipts

Revenue receipts are those receipts that do not create any liability for the government and do not reduce government assets.

They are regular incomes of the government.

Revenue receipts are divided into:

1. Tax Revenue

These are compulsory payments made by citizens and businesses to the government without direct benefit.

Examples of Tax Revenue

Direct Taxes

- Income Tax

- Corporate Tax
- Wealth Tax (earlier)
- Capital Gains Tax

Indirect Taxes

- Goods and Services Tax (GST)
- Customs Duty
- Excise Duty
- Service Tax (before GST)
- Value Added Tax (VAT)

Example:
If the government collects ₹10,000 crore from income tax, it is a revenue receipt.

2. Non-Tax Revenue

These are incomes received by the government other than taxes.

Examples of Non-Tax Revenue

Interest Receipts

- Interest on loans given to states
- Interest on loans to public sector enterprises

Example:
If the government receives ₹500 crore interest from a loan given to a state government, it is non-tax revenue.

Dividends and Profits

- Profits from public sector enterprises
- Dividend from RBI
- Dividend from LIC

Example:
RBI transferring ₹80,000 crore surplus to government.

Fees and Charges

- Passport fees
- Court fees
- Examination fees
- University registration fees

Fines and Penalties

- Traffic fines
- Environmental penalties
- Late payment penalties

Special Receipts

- Spectrum license fees from telecom companies
- Mining royalties
- Petroleum exploration licenses

(B) Revenue Expenditure

Revenue expenditure refers to government expenditure incurred for normal functioning of government departments and services.

These expenditures do not create assets.

Examples of Revenue Expenditure

1. Administrative Expenditure

- Salaries of government employees
- Office maintenance
- Electricity bills of government offices
- Stationery expenses

Example:
Salary of a government school teacher.

2. Interest Payments

Government must pay interest on its borrowings.

Example:

- Interest on government bonds
- Interest on loans taken from RBI
- Interest on treasury bills

India spends a large part of its budget on interest payments.

3. Subsidies

Subsidies are financial assistance given to reduce prices.

Examples:

- Food subsidy (Public Distribution System)
- Fertilizer subsidy
- LPG subsidy
- Electricity subsidy

4. Grants to States and Institutions

Examples:

- Grants to state governments
- Grants to universities
- Grants to hospitals
- Grants to NGOs

5. Social Welfare Expenditure

Examples:

- MGNREGA payments
- Scholarships
- Old age pension
- Disability pension

- Health schemes (Ayushman Bharat)

2. Capital Budget

Capital Budget includes capital receipts and capital expenditure.

(A) Capital Receipts

Capital receipts are those receipts that either create liability for the government or reduce government assets.

Types of Capital Receipts

1. Borrowings

When the government borrows money, it becomes a liability.

Examples:

- Market loans
- Government bonds
- Treasury bills
- Loans from RBI
- Loans from foreign institutions (World Bank, IMF)

Example:
Government raises **₹1 lakh crore through bonds**.

2. Recovery of Loans

Government sometimes gives loans to:

- State governments
- Public sector enterprises
- Foreign governments

When these loans are repaid, it is capital receipt.

Example:
Repayment of loan by a state government.

3. Disinvestment

When the government sells shares of public sector companies.

Examples:

- Selling shares of Air India
- Selling shares of LIC
- Selling shares of Coal India

Example:
Government selling 10% shares of a PSU.

4. Small Savings Collections

Examples:

- National Savings Certificate (NSC)
- Public Provident Fund (PPF)
- Kisan Vikas Patra
- Sukanya Samriddhi Scheme

These increase government liability.

(B) Capital Expenditure

Capital expenditure refers to expenditure that creates assets or reduces liabilities.

Examples of Capital Expenditure

1. Infrastructure Development

Examples:

- Construction of highways
- Building bridges
- Construction of railways
- Building airports
- Building dams

Example:
Building Delhi–Mumbai Expressway.

2. Investment in Public Sector

Government investing money in PSUs.

Examples:

- Investment in railways
- Investment in power plants
- Investment in defense production

3. Purchase of Machinery and Equipment

Examples:

- Military equipment
- Government hospital machines
- Police vehicles
- Computers for government offices

4. Loans Given by Government

Examples:

- Loans to state governments
- Loans to public sector enterprises
- Loans to foreign governments

Example:
Loan given by India to Nepal or Bhutan.

Summary Table

Type	**Meaning**	**Examples**
Revenue Receipts	No liability, no asset reduction	Taxes, fees, fines
Revenue Expenditure	Day-to-day expenses	Salaries, subsidies
Capital Receipts	Creates liability or reduces assets	Borrowings, disinvestment
Capital Expenditure	Creates assets	Roads, dams