Fiscal System - It refers to the management of revenue & capital expenditure financer by the state. Hence fiscal system includes budgetary activities, of the govt. that is revenue raising, borrowing & spending activities.

Fiscal Policy - Fiscal policy refers to the use of taxation, public expenditure & the management of public debt in order to acheive certain specific objectivies.

Sources of revenue for centre - The revenue of the following elemets.

1. Tax revenue.
2. Non-tax revenue.

Sources for revenue for state

1. State tax revenue.
2. Share in central taxes.
3. Income from social, commercial & economic service & profits of state run enterprises. State tax revenue includes among other land revenue, stamp, registration & estate duty etc.

Expenditure of the centre - The central government makes expenditures broadly under two heads -

1. Plan expenditure.
2. Non-plan expenditure.

Plan expenditure - Under this comes autlay for agriculture, rural development, irrigation & flood control, energy, industry & minerals, transport communication, science & technology, enviroment & economic service etc.

Non-plan expenditure - The major non-plan expenditure are interest payment, defence, subsidies & general services.

♦ Public debt of the govt. of India is of 2 kinds - internal & external.

♦ ***Internal debt -*** It comprises loans raised from the open market, compensation bonds, treasury bills issued to the RBI, commercial banks etc.

Objective of fiscal policy in India - Fiscal policy essentially has a multidimensional role. However, in India in the context of indicative planning it has two major objectives -

1. Improving the growth performance of the economy.
2. Ensuring social justice to the people.

Fiscal Policy influences growth performance of an economy mainly in two ways -

1. Influencing the resource mobilization.
2. Influencing the efficiency of resource allocation.

There are 3 parts of the fiscal policy -

1. Public Revenue.
2. Public expenditure.
3. Public debt.

Public Revenue - Public revenue, an indispensable organ of public finance operation include all income & receipts of the govt. through various sources.

Sources of public Revenue - Govt. spends money for development & welfare activities. The expenditure on food, education, health, infrastructure etc. are increasing day by day. To meet these expenses the govt. mobilizes income from various sources. This income is called public revenue.

The different sources of income are -

1. Tax
2. Income from public

Tax Revenue - Tax is compulsory payment by the citizens to the govt. to meet the public expenditure.

♦ There are 3 types of taxes -

1. Direct & indirect tax.
2. Progressive & regressive tax.
3. Advatorem & specific tax.

Direct tax - A direct tax is one whose burden falls on the same person on whom it is levied i.e. he cannot shift his burden to somebody else.

♦ Personal income tax.
♦ Corporate tax.
♦ Wealth tax.
♦ Gift tax.
♦ Land Revenue.
♦ Professional tax.
♦ Entertainment tax.

Indirect tax - An indirect tax is one which is imposed to someone but whose burden is shifted to some one else.

♦ Exercise debt.
♦ Custom duty.
♦ Sales tax.
♦ Service tax.
♦ Value added tax.
♦ Passenger tax.

Progressive tax - A tax that takes away a higher proportion of income as the income rises is known as progressive tax. Indian income tax is progressive tax.

Regressive tax - Regressive tax is one in which the rate goes down as the income of a person goes up.

Budget - The budget of the govt. of India for any year gives a complete piture of the estimated receipts & expenditure of the govt. for that year on the basis of the budget figures of the two previous years. The budget consists of two parts -

1. Revenue budget.
2. Capital budget.

Revenue budget - All current receipts such as taxation, surplus of public enterprises & expenditures of the govt.

Capital budget - All capital receipts & expenditure such as domestic & foreign loans, loan repayments, foreign aid etc.

Types of budgeting -

1. ***Zero - based budgetting -*** It is a method of budgetting in which all budgetary allocations are set up to nil at the beginning of a financial year.
2. ***Out come budgetting -*** This type of budgetting tries to ensure that budget outlays translate into concrete outcomes.
3. ***Gender budgetting -*** It came into being in 2004-05. To contribute towards the women empowerment & removal of inequally based on gender, role of budgetting has been accepted through this step.

Deficits - A budget can be balance budget, surplus budget or a deficit budget. In a budget statement, there is a mention of four types of deficits.

(a) ***Revenue Deficit*** - Revenue deficit refers to the excess of revenue expenditure over revenue receipts.

1. ***Revenue Deficit*** - Total Revenue - expenditure - Total revenue receipt = Non plan expenditure + plan expenditure - (net tax revenue + non tax revenue).
2. ***Budget deficit*** - Total expenditure - total receipts.
3. ***Fiscal Deficit*** - Revenue receipts Total receipts -

Primary deficit - Primary deficit refers to fiscal deficit minus interest payment.

Primary deficit - Revenue deficit interest payments.

Revenue Deficits (RD) - Revenue expenditure - revenue receipts.

♦ Govt. cannot balance its day-to-day expenditure & day to day income. It is dangerous.

Fiscal deficit (FD) = borrowings

Total expenditure - [RR + non - debt creating capital receipts].

Primary deficit = Fiscal deficit - interest bearings.

Monetized Deficit - It means net addition of RBI credit to the government during the year which leads to creation of new notes by the RBI & thus brings about monetization of the economy. (RBI) makes this meany against the govt. treasury bills) FD can also be expressed in the form of the following equation.

FD = Budget deficit + Borrowings (wrong way of calculation).

From 1997 govt. abolished BD as a concept as it includes borrowings.

Various taxes Prevailing in India -

1. Corporate Tax - Tax on companies profit on foreign companies
2. Customs Duty.
3. Excise duty.
4. Income tax.
5. Service tax.
6. Mat - Minimum alternative tax.
7. STT - securities transaction tax.
8. FBT - Fringe benefit tax.
9. BCTT - Banking cash transcation tax BCTT is also called CWT - (Cash withdrawal tax)
10. Tonnage tax.
11. EET - Exempt exempt tax.
12. MODAT.
13. Cenvat.
14. State level VAT.
15. CST - central sales tax.

Corporate Tax - Tax on companies profit on domestic companies on foreign companies.

Surcharge - Tax on tax. - to reduce inequalities (max. limit is 1 crore)

Indirect cess - It is a temporary levey imposed to achieve a specific objective.

Custom duty - It includes export & import duty. Since there is no export duties in India for many years, for all purposes it means import duty.

♦ PEARATE of custom duty means the highest average rate of import duty on non-agriculture goods i.e. on manufactured products.

♦ There is also a duty called counter vailing duty (CVD) which is a duty imposed over & above basic custom duty on such imported products whose price happens to be lower than the price happens to be lower than the price of similar domestic product so than in order to pr5ovide a competitive edge to the domestic product, a CVD is imposed in such a way that it makes the price of imported products equal to/higher than domestic product prices.

The is also an import duty called ***"Anti dumping duty"*** which can be imposed by a nation on such imported products which are deliberately sold by an exporting country at a prices lower than the prices at which it may be sold in the home market. On such products, WTO permits imposition of Addities.

Eg = China started dumping batteries in India.

Excise Duty - It means duty on products manufacture within the country. Excise is imposed by the centre on most of the commodities.

Service Tax - Tax on Service.

Mat - (Minimum alternative tax) - It is the tax imposed on companies which show high profits, pay high dividents to share holders & yet manipulate their accounts legally that they end up paying zero tax to the govt. On such companies, govt. imposes MAT at the rate of certain percentage of their booked profit i.e. profit on the basis of which they declare dividends.

STT - (Securities Transaction Tax) - It is a tax imposed on transaction in the stock market i.e. on the total value of share bought & sold in the stock market. The tax is share equally between the year & the seller.

FBT - (Fringe benefit Tax) - FBT is a tax imposed on fringe benefits provided by an employer to his employers by way of conveyance, entertainment, telephone, children education, club membership pensioner benefit etc.

Tonnage Tax - It is a tax imposed on shipping company on the basis of tonnage carried by them & the number of days the ship has been in operation. On this basis a national income is worked out & subjected to tax at prevailing corporate tax rate.

Capital Gains Tax - It is imposed on such gains made by an individual/company which arise due to increase in the value of a property over a period of time.

MODVAT - It was introduced by Jha committee in 1986. It means modified value added tax which implies 2 things in respect of central excise duty.

1. Removal of cascading burden
2. Rationalization under MODVAT.

- MODVAT was renamed as CENVAT under which there was further rationalisation in the sense that rate of excise duty was the same with both on input & output.

State Level VAT - It is the VAT introduced from 1st April, 2005 to replace sales tax, Turnover tax, surcharge on sales tax etc. It was introduced on the recommendation of Asim Das Gupta committee which proposed a white pare as a consensus among state govt. about the introduction of VAT to there are 2 standard rate of VAT 12.5% & 4%.

- The former generally on final products & the later on input including some essential commodities like drugs.
- There is also rate of VAT on gold & silver ornaments.
- Thus from 1st April, 2005 most state govt. have introduced VAT to replace state sale tax.
- The biggest virtue of VAT is that is minimizes evasion because a seller pays VAT on his sales but gets refands of VAT paid by him on previous purchase.
- A retailer pays VAT but is refunded VAT paid by him on good purchased by him on wholesales. He cannot claim this refund unless he shows receipt.
- Thus VAT minimizes evasion & this is the reason that revenues of state govt. have gone up substantially after the introduction of VAT.

Centeral Sales Tax - It is collected by the selling states from buying state. Thus it is an interstate tax. The rate is 3% it is abolished after GST was introduced.

FRBM Act. - Fiscal responsibility & budget management Act was passed in 2003 for which rules were laid in 2004.

According to this Act. the governments bring down its revenue deficit to zero & FD to 3% by 2008-09.

The Act. aims act ensuring stability, accountability & transparency on central govt. finances. It is binding on states to implement similar legislation on their own level.

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