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Theme 196
UNION BUDGET 2008-09

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MARCH 2008

Theme No. 196 : UNION BUDGET – 2008-09

The Union Budget gives an account of the total resources to be mobilized from various sources and how these resources are deployed in different sectors by way of public expenditure. The budget depicts a complete picture of the estimated receipts and expenditure of Government of India for the ensuing financial year.

What are the objectives of the Budget?

The budget seeks to achieve objective of accelerating the economic development of the country through creating an investment climate conducive for the development, curbing inflationary tendencies, encouraging exports, generating employment opportunities, implementing poverty alleviation programmes, reducing the income inequality etc.

How is the budget prepared?

The budget is prepared and presented by the Finance Minister before the Parliament. The budget for a particular financial year is prepared and presented about one month preceding the beginning of the financial year. The budget is divided into two parts viz. Revenue Budget and Capital Budget. After presenting the budget there is a general discussion on it in both houses of Parliament. The Finance Bill is to be passed in the Parliament to approve the tax proposals and an Appropriation bill is passed to authorize expenditure. The taxes and expenditure proposed in the budget come into effect only when the Parliament approves the Finance Bill and the Appropriation Bill.

Distinguish between Revenue Budget and Capital Budget?

In the budget a distinction is made between Revenue Receipts, Capital Receipts, Revenue Expenditure and Capital Expenditure. Revenue receipts are those which involve no disposal of assets or creation of liabilities. For example, tax revenues are revenue receipts as the Government get these without incurring any liabilities. Likewise revenue expenditures are those which neither add to Government's assets nor reduce liabilities. Salaries of government employees, purchase of stationery, maintenance of public utilities etc. are revenue expenditure. Capital receipts are those raised through borrowing involving creation of liabilities or sale/disposal of Government property/assets. Capital expenditure are those involving acquisition of assets e.g. Investments in railways, roads, bridges, power projects, irrigation works etc. or reduction of government liabilities by way of repayment of Government debts. Etc.

What are the revenue receipts?

The revenue receipts consist of direct taxes and indirect taxes. Direct tax mainly consists of Income tax and corporate tax. It also includes taxes on interest, expenditure, estate, gift and wealth. Indirect taxes consist of excise, customs and service. Total estimate of direct tax for the year 2008-09 is Rs.3, 65,000 crore and that of indirect tax is Rs.3, 21264 crores. Total estimated revenue receipts including other taxes and duties is Rs.6, 87,717 crores. During 2007-08, for the first time, direct taxes contributed more than 50 percent of the centres total revenue. The projected revenue receipts as a percentage of GDP is 12.97%. The estimated receipts and expenditure are shown in the inside cover page.

What are the major changes in Direct Taxes?

- Threshold limit for personal Income tax raised from Rs.110,000/- to Rs.1,50,000/-. I.T. rates also reduced giving a sort of bonanza to salaried class.
- Banking cash Transaction Tax withdrawn from April 1, 2009.
- Medical insurance premium paid for parents eligible for sec 80 D deduction.
- Reverse mortgage transactions to be free of tax.
- Relief on Dividend Distribution tax on dividends received from subsidiaries.
- Commodities Transaction Tax imposed on commodity exchange transactions.
- Short term capital gains tax increased from 10% to 15%.
- No change in corporate tax rate. Effective rate will continue to be 22%.

What are the major highlights of the Budget in Indirect taxes?

- Peak rate of customs duty unchanged at 10%.
- Excise duty reduced from 16% to 14% across the board.
- Excise duty on small cars and two-wheelers dropped from 16% to 12%.
- Excise duty on buses and chassis reduced from 16% to 12%.
- Excise duty on pharmaceutical products halved to 8%.

How is the expenditure items classified in the budget?

Expenditure is classified into (a) Non-plan Expenditure and (b) Plan Expenditure. Non-plan does not mean that the expenditure is unplanned. 'Plan' in this context indicates what is covered in the Five Year Plan. Under both (a) and (b) there will be revenue expenditure and capital expenditure. Examples of Non-plan Revenue expenditure are: Interest payments, maintenance of defence forces/police, subsidies on food/fertilizer, grants, salaries, pensions etc. Under Non-plan capital expenditure items such as defence expenditure to acquire assets and infrastructure, loans to PSUs, loans to state governments and foreign governments are normally included. Similarly under plan Expenditure also there are revenue and capital items.

What are the major expenditure items that stand out prominently in the Budget?

- Substantial relief of Rs. 60,000 crore to farmers from indebtedness stand out most prominently in the Budget. Three crore small and marginal farmers and one crore other farmers will benefit from the scheme.
- Defence allocation is proposed to be hiked by 10% to Rs.105,600 crore.
- To give greater impetus to education, the Union Budget has lined up Rs. 38,702 crore for the year. As many as 16 central universities in each of the uncovered states will be established during the current fiscal. It is also proposed to establish a non-profit corporation for world-class skill development.
- Allocation for National Highways scheme up by 19% to Rs.12,966 crore. But, there is need for greater focus on infrastructure front.
- The Budget focus a lot more on social development and inclusive growth. There is increased allocation to Agriculture and rural development. Govt. has launched the Rashtriya Krishi Vikas Yojana with an outlay of Rs.25000 crore and National Food Security Mission

with an outlay of Rs.4882 crore. It is decided to put in place a "monitoring and accounting system" scheme-wise and state-wise. It will help to reduce the leakage of money spend for social development.

Distinguish between Revenue Deficit and Fiscal Deficit?

Revenue deficit is the excess of revenue expenditure over revenue receipts. In a perfect budget, revenue receipts and revenue expenditure should tally. Revenue deficit implies meeting the consumption expenditure with borrowings. This creates obligations on the future generations for the expenditure incurred by the present generation. Fiscal deficit is a broader term, measuring the excess of total expenditure over the total receipts excluding borrowings.

How far the budgetary proposals by Mr. P. Chidambaram will help to achieve the well-known objectives of a Union Budget?

Focus on agriculture and infrastructure, across the board reduction in excise duty, substantial reduction in personal income tax and the consequent higher demand for goods and services etc., will definitely help to accelerate the economic development of the country and create a conducive climate for investment.

It is expected that Budget will also help to keep inflation under check and achieve the goal of growth with price stability. The growth rate of Agriculture during 2007-2008 is low at 2.6 per cent. World prices of crude oil, commodities and food grains have also risen sharply during the period. So the management of supply side of food articles require greater attention. During 2007-08 capital inflows are far in excess of current account deficit. This poses a challenge to monetary management. But the govt. in consultation with RBI will continue to take measures necessary to moderate the capital flows, consistent with the objectives of monetary and financial stability.

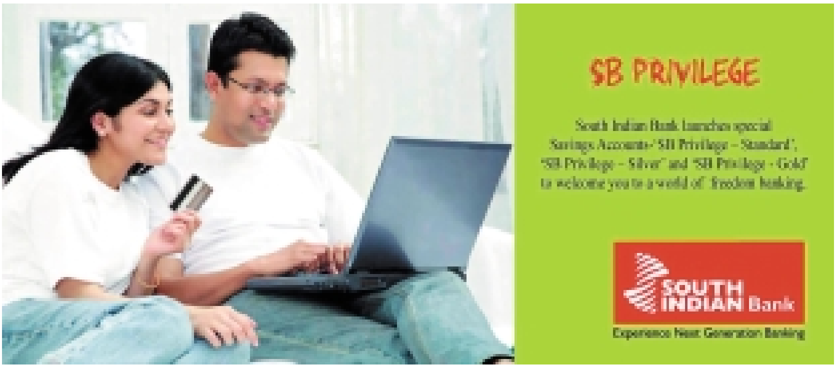
The Budget will help to generate more employment opportunities, speedy implementation of poverty alleviation programmes and faster social development and inclusive growth. The finance minister has also succeeded in meeting his fiscal deficit targets and has forecast a fiscal deficit of only 2.50 percent of GDP for next year.

Budget at a glance

	Particulars	Revised Estimates 2007-2008 Rs. in crores	Budget Estimates 2008-2009 Rs. in crores
1.	**Revenue Receipts**	**525098**	**602935**
2.	Tax Revenue (net to Centre)	431773	507150
3.	Non-tax Revenue	93325	95785
4.	**Capital Receipts (5+6+7)$**	**184275**	**147949**
5.	Recoveries of Loans	4497	4497
6.	Other Receipts	36125	10165
7.	Borrowings and Liabilities	143653	133287
8.	**Total Receipts (1+4)$**	**709373**	**750884**
9.	**Non-plan Expenditure**	**501849**	**507498**
10.	On Revenue Account of which,	412975	448352
11.	Interest Payments	171971	190807
12.	On Capital Account	88874	59146
13.	**Plan Expenditure**	**207524**	**243386**
14.	On Revenue Account	175611	209767
15.	On Capital Account	31913	33619
16.	**Total Expenditure(9+13)**	**709373**	**750884**
17.	Revenue Expenditure(10+14)	588586	658119
18.	Capital Expenditure(12+15)	120787	92765
19.	**Revenue Deficit (17-1)**	**63488**	**55184**
	Revenue deficit as a % of GDP*	1.4	1
20.	**Fiscal Deficit {16-(1+5+6)}**	**143653**	**133287**
	Fiscal deficit as a % of GDP	3.1	2.5
21.	**Primary Deficit (20-11)**	**-28318**	**-57520**
	Primary deficit as a % of GDP	-0.6	-1.1

* GDP for BE 2008-2009 has been projected at Rs.5303770 Crore assuming 13% growth over the advance estimate of 2007-2008 released by CSO.

$ Excluding receipts in respect of Market Stabilization Scheme, which will remain in the cash balance of the Central Government and which will not be used for expenditure.



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