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A PRIMER ON BUDGET, AHEAD OF THE UNION BUDGET 2019-20

This article is a part of SunLegal's 'Simplifying the Law Series' that seek to demystify the laws and break them down for easy understanding by the readers.

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By
Parul Kashyap

The Union Budget is a financial statement of government’s estimated revenue and expenditure for that particular financial year. The Union Budget is prepared for a period between April 1 to March 31 each year and is classified into (a) Revenue Budget and (b) Capital Budget. It is the most extensive account of the Government's finances, in which revenues from all sources and expenditures on all activities undertaken are enumerated. It also contains estimates for the next fiscal year. Budget was first introduced in India in 1860 during the colonial rule.

Later on, after independence, provisions relating to budget were included in the constitution.

Presented in Parliament every year, the Budget document details how much money the Union government expects to raise in the coming financial year, and how and where it intends to spend that money.

The Union budget gives the statement of receipts and expenditure of three consecutive years:

1. Actuals for the preceding year
2. Estimates for the present year
3. Estimates for the coming year

The Union Budget includes the Finance Bill and Appropriation Bill, both of which are to be passed by both Houses of Parliament before implementation on April 1 of the new financial year.

Laws Behind the Budget

As the sole authority on finances of the country vests in the parliament, upon President's recommendation in accordance with Art. 117(1) and 117(3), the finance minister lays down the budget before the parliament for its approval. The parliament legislates on the taxes to be levied (Art. 265) and authorizes expenditure from the Consolidated Fund of India (Art. 266). The Budget, which has been referred to as 'Annual Financial Statement' in Art. 112 of the Constitution provides a declaration of estimated receipts and expenditure for the financial year under three category of accounts – Consolidated Fund of India, Contingency Fund of India and Public Accounts.

Other constitutional provisions related to the enactment of the budget are as below:

Article 110 (1) – Definition of money bill which includes change in taxes, money borrowed by the Government of India and related laws, appropriation of money out of Consolidated Fund of India and withdrawing money from Consolidated or Contingency Fund of India.

Article 110 (4) – The money bill has a certificate signed by the Speaker of the Lok Sabha stating that the bill is a money bill when it is presented to the President for assent.

Article 117 – A money bill which seeks to present the budget can be introduced only after the President makes such a recommendation.

The Budget has two parts - Revenue Budget and Capital budget.

Revenue Budget deals with Revenue Receipts and Revenue Expenditure. These expenditures and receipts are related to the day to day functioning of the government. Revenue Receipts comprise of both tax and non-tax revenue and would typically include proceeds of taxes, interests and dividends on investments made by government, profit from PSUs, fees and other receipts for services rendered by the government.

On the other hand Revenue Expenditure is needed to finance government functions like salaries of employees, interest payments on past debts, grants given to state government, social services, subsidies, administration etc.

Capital Budget gives details for Capital Receipts and Capital Expenditure. Capital budget essentially is an account of assets as well as liabilities of the central government. Capital Receipts are loans raised by Government e.g.- Borrowings from the RBI, loans received from foreign governments, market borrowings by the government from the public, borrowings from commercial banks or financial institutions through the sale of Treasury Bills, borrowings from international financial institutions, post office savings, post office saving certificates, disinvestment receipts and recoveries of loans from State and Union Territory Governments and other parties.

Capital payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment, as also investments in shares, etc., and loans and advances granted by Central Government to State and Union Territory Governments, Government companies, Corporations and other parties.

Stages of the Budgetary Procedure

The budgetary procedure in India involves four different operations that are
1. Budget Formulation: The preparation of estimates of expenditure and receipts for the ensuing financial year;
2. Budget Enactment: Approval of the proposed Budget by the Legislature through the enactment of Finance Bill and Appropriation Bill;
3. Budget Execution: Enforcement of the provisions in the Finance Act and Appropriation Act by the government—Collection of receipts and making disbursements for various services as approved by the Legislature; and
4. Legislative Review of Budget Implementation: Audits of government’s financial operations on behalf of the Legislature.

Parliamentary Procedure in relation to the Budget

1. Demand for Grants-Article 113.
It provides that estimates relating to expenditure charged upon the Consolidated Fund of India shall not be submitted to the vote of Parliament, even though these can be discussed in either House of Parliament. The estimates relating to the 'voted' portion shall be submitted in the form of demands for grants, and Lok Sabha shall have power to assent, refuse or reduce the amount specified therein. No demand for a grant shall be made except on the recommendation of the President. Therefore, the expenditure estimates from Consolidated fund are voted by the Lok Sabha in the form of Demand for Grants which are arranged ministry wise.

2. Appropriation Bill-Article 114
After the passing of the demands under Article 113, Appropriation Bill is introduced in the Lok Sabha to provide for the appropriation out of the Consolidated Fund of India to meet the requirements relating to (a) the grants so made by the Lok Sabha; and (b) the expenditure charged on the Consolidated Fund of India.

3. Finance Bill
At the time of introduction of the Annual Financial Statement, a Finance Bill is also presented before Parliament - the Finance Bill satisfies the criteria of a 'Money Bill' as it provides for the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget. A 'Money Bill' is defined under Article 110(1).

4. Article 116- Vote on account, Vote of credit and Exceptional Grant.
The Lok Sabha shall have the power relating to (a) Vote on Account- to make any grant in advance in respect of the estimated expenditure for a part of any financial year pending the completion of the parliamentary procedure under Article 113 and 114; (b) Vote of Credit- to make a grant for meeting an unexpected demand upon the resources of India when on account of the magnitude or the indefinite character of the service the demand cannot be stated with the details ordinarily given in an annual financial statement;(c) Exceptional Grant- to make provision for an exceptional grant that does not form part of the current service of any financial year. Parliament shall have power to authorize by law the withdrawal of moneys from the Consolidated Fund of India for the above purposes.

5. Fiscal Responsibility and Budget Management Act, 2003
This act was enacted to make governments to follow fiscal discipline. It mandates the laying down of certain additional documents relating to fiscal policy during budget presentation.

Passing of the Budget

A few days after the budget, there is a general discussion in Lok Sabha for 2-3 days. The FM replies to the debate at the end of the discussion. A 'VOTE-ON-ACCOUNT' for expenditure in initial months of financial year is obtained from Parliament.
The House is adjourned for a fixed period. During the break, demands for grants are considered by relevant standing committees. These demands are taken up one by one as per a schedule decided by the business advisory committee of house.
Any member can seek a cut in allocation through one of the three cut motions:

1. Disapproval of Policy Cut
2. Economy Cut
3. Token Cut

On the last day of the discussion on the Demands for Grants, the Speaker puts all the outstanding Demands for Grants to the vote in the House. After the Demand for Grants, Appropriation Bill is put to vote in Lok Sabha. It gives the government powers to spend from the Consolidated Fund of India. After the Appropriation Bill, Finance Bill is considered and passed by Parliament as a Money Bill. The bill is required to be passed by both the Houses and receive assent of the President within 75 days of its introduction. Once the Finance Bill is passed and signed by the President, the budget process is over.

Landmark Budgets in India

The one Union Budget that changed India's future and was responsible for putting India on the road to accelerated growth was the Budget of 1991-92 presented by the then Finance Minister, Dr. Manmohan Singh. This budget opened up India's economy to foreign investors and eased up trade blockages. It overhauled the import-export policy, slashed import licensing and went for vigorous export promotion and optimal import compression to expose Indian industry to competition from abroad. It began rationalisation of duty structures by pruning the peak customs duty from 220 per cent to 150 per cent. India being amongst the fastest growing economies today is thanks to this landmark budget.

The Union Budget of 1997-98, presented by P. Chidambaram is also regarded as one of the turning points of the economy. This budget saw easing up of income tax rates and lowering of customs duties. Chidambaram presented the Voluntary Disclosure of Income Scheme in this budget. The scheme was aimed to curb black money in the economy and widen the tax net. The moderation in rates improved overall compliance as those who used to find rates prohibitive earlier began to pay up instead of concealing their incomes and evading tax. The VDIS garnered about Rs 10,000 crore. Higher disposable income in the hands of taxpayers helped generate demand. The incremental tax revenues were leveraged into developmental public expenditure on social welfare and the infrastructure sector.

The Millennium Budget, i.e., the Union Budget of 2000-01, is said to have transformed the Indian economy into a tech-hub. Yashwant Sinha, who presented the budget, announced a reduction in customs duties for a few raw materials required for the production of the optical fibre by almost 10%, and by 20% in case of mobile phones. This budget also phased out the tax holidays in perpetuity granted by the Dr. Manmohan Singh for software exports in the year 1995. The introduction of this tax holiday to software export sector was followed by exceptional growth in Indian IT industry. However, no industry can remain dependent on tax incentives in perpetuity., therefore, while the credit for India emerging a major global software goes to Dr. Manmohan Singh, Yashwant Sinha, perhaps contributed a great deal to infusing confidence in the IT sector.

For any queries on this subject please contact:

Parul Kashyap
Founder Partner

parul.kashyap@sunlegal.in