

RESTRUCTURING FISCAL SYSTEM OF INDIA**Dr. VEENA MATHUR**

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The structural imbalance in India's finance system has existed right from the beginning. While the deterioration in fiscal turning points in the last decade can be related to some proximate causes like pay revision of employees, or sluggish revenue growth because of absorption in the economy, the imbalances in the state budgets have their origin in factors that are structural in character. [Anand, Bagchi & Sen, 2001]

The main objective of this paper is to suggest restructuring of public finances or fiscal system of the country to provide macro-economic stability, equitable growth in the country, and improve efficiency of resources.

The 12th Finance Commission, which was entrusted with the responsibility of suggesting restructuring of the Central and state Govts to public finances, had envisaged trend paths for the level of revenue and fiscal deficit, the level of debt expenditure on social infrastructure. The recommendations made by the 12th Finance Commission regarding tax devolution, grants to states, debt relief, financing of relief expenditure and related matters were laid before the Parliament on Feb. 26, 2005

The Union Budget for the year 2005-06, presented in Parliament on Feb. 28, 2005, by the finance Minister P. Chidambaram, blends all economic & social reforms with a bold thrust on social infrastructure and unemployment alleviation programs as if to atone for the neglect of the earlier years.

The budget also derived comforts in terms of fiscal consolidation with the reduction in the revenue deficit of 0.9% of GDP in the inaugural year of the FRBM Act, 2003, as against an annual reduction of at least 0.5% GDP, stipulated under the FRBM Rules 2004. The strong macro-economic fundamentals coupled with a positive step towards fiscal consolidation provided a strong base to pursue the mutually reinforcing objectives of growth, stability, and equity for the year 2005-06, and a continuance of further fiscal consolidation with emphasis on tax reforms in the framework of a cooperative fiscal federalism.

TAX PROPOSALS

In order to reform the revenue collections, the states were committed towards implementation of VAT from April 2005, while the centre in turn, made a provision of Rs. 5000 crores, as compensation of the states on account of any possible revenue loss due to VAT. Although some states like Rajasthan has yet not implemented VAT on stipulated time. Against the backdrop of Rs. 5000 crores, while the Budget conceded difficulty in adhering to the FRBM, path during 2005-06, it is committed to resume the process of fiscal correction with effect from 2006-07 and achieve the FRBM goals by 2008-09.

The introduction of destination based VAT in all the states, is an important reform. Compared to present indirect tax system at centre and state, VAT is a simple, transparent and fuel-based tax system. In addition to changing the overall structure of commodity taxes in the country, the implementation will have a direct impact on widening the tax base for the centre as well as states.

The Govt. is moving to a tax system that is based on moderate rates and wider base through rationalization of exemptions. The changes in custom duty structure are broadly in line with the medium term objectives of moving towards tariff levels prevailing in East Asian countries. Raising the effective zero-tax slab for personal income tax is designed to increase disposable income and removal of sectoral caps on savings eligible for tax benefits will give tax payers the flexibility in planning their savings and investments. The Budget proposals for improvement in tax administration include –

- i. Computerization of departmental business processes.
- ii. Encouragement to voluntary tax compliance through better tax payer's service.
- iii. Reduction in compliance cost to the tax payers, including minimization of direct interface through improved e-governance.

The budget's big reform is direct taxation (I. tax) relief has come for almost all sections, and it is realized that specific savings instruments receiving tax incentives create distortions. The corporate tax rates have been cut is good and brave. But the surcharge has gone up, to reducing the effective relief.

The Budget estimates work out a deficit (revenue) to Rs. 95312 crores or 2.7% of GDP. Mr. Chidambaram explained to lower down the deficit to the fall out of the 12th Finance Commission recommendations and promised to correct it by the year 2006-07 and achieve the FRBM Act goals by 2008-09.

DISINVESTMENT

On disinvestment programme, the finance minister stepped up pressure on PSUs to increase their investment by over Rs. 33,000 crores to Rs. 1, 18,462 crores. Assuming all receipts from disinvestment as against Rs. 4,991 crores from partial sale of equity in PSUs in 2004-05, he announced an equity support of Rs. 14,040 crores for the financial year 2005-06, down from Rs. 14,331 crores even as hiking the plan investment by PSUs by over 35% from Rs. 85,294 crores as per the revised estimates for 2004-05.

An important aspect of fiscal consolidation and reform has been to reorient expenditure priorities in favor of social and physical infrastructure. The latest budget has frontloaded this as the first two of the punch priorities, but there is a significant gap between rhetoric and reality. Actual funds allocated for these sectors remain meagre. The central budget outlay for telecommunication sector is Rs. 1,700 crores, Rs. 1400 crores for national highways development (four-lane 4000km) and overall outlay Rs. 9,320 crores in the year 2005-06.

PUBLIC EXPENDITURE

The budget feels that there is an imperative need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. In this regard, effective July 1, 2005, a new expenditure administration will come into effect, the thrust of which will be on greater delegation of authority to administrative ministries in managing their financial affairs.

Subsidies

Food, fertilizers and petroleum are three main products which involve large explicit subsidies from the budget. However, in order to restructure the subsidy regime — in this cautious manner, the Govt. decided to have cost-effective subsidy through decentralized procurement of food, new pricing system for fertilizers and to implement the important recommendations of Lahiri Committee regarding petroleum products.

CONCLUDING REMARKS

Through the budget 2005–06, the Govt. commits itself to pursuing fiscal policies designed to promote savings, to devise ways and means to channel these savings into productive investment and to fund necessary social expenditures. If an inflationary trend is under control, then there is nothing to fear from spiraling deficit, but the Govt. cannot sit back comfortably on this assumption. Actually, the revenue deficit, being the main culprit, has to be put under control as it eats up almost 65% of Govt. borrowings. If fiscal deficit is to be tackled effectively, obviously revenue earnings have to be improved tremendously and the leakages stopped completely.

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