

Budgetary developments in 2006-07

2.9 Formulation of Budget 2006-07 was based on two important considerations. First, it had to be in line with the medium-term fiscal policy objectives consistent with FRBMA; and second, it had to further the NCMP objectives of sustaining high and inclusive growth with macroeconomic stability manifesting itself in moderate inflation and a sustainable current account. Budget 2006-07 further strengthened the process initiated earlier through augmentation of resources and allocating these in terms of NCMP priorities. The series of initiatives that were taken in the Budget included: hike in gross budgetary support (GBS) for the plan by 20.1 per cent from Rs.143,791 crore in 2005-06 (RE) to Rs.172,728 crore in 2006-07(BE); an increase of 54 per cent in the outlay for the six components of visionary development proposal Bharat Nirman - for building infrastructure, especially in rural areas - from Rs. 12,160 crore (including the North East component) to Rs. 18,696 crore; eight flagship programmes - Sarva Siksha Abhiyan, Mid-day Meal scheme, Rajiv Gandhi Drinking water mission, Total Sanitation Campaign, National Rural Health Mission, Integrated Child Development Programme, National Rural Employment Guarantee Scheme and Jawaharlal Nehru National Mission Urban Renewal Mission - from Rs. 34,927 crore in 2005-06 to Rs. 50,015 crore; and a focus on outcomes rather than outlays. The process of fiscal consolidation, which was paused during 2005-06, was resumed again in full earnest and Budget envisaged bringing revenue and fiscal deficits as proportion of GDP to 2.1 per cent and 3.8 per cent, respectively.

Revenue and Capital receipts

2.10 Expenditures of Government are generally sticky. A significant part of the

expenditure, particularly interest payments; pay and allowances; transfers to the States and Union Territories are committed, and there is very little possibility of their compression in the short run. Resources that are required for allocating to the new programmes, therefore, could largely come through an augmentation of revenue receipts. The approach to fiscal consolidation was, therefore, largely revenue-led, though an attempt was made to balance it by emphasising outcomes of expenditure. Budget for 2006-07, continuing with this revenue-led strategy, estimated a growth of 15.8 per cent in revenue receipts over 2005-06 (RE), composed of 19.4 per cent growth in tax revenue accruing to the Central Government and 2.6 per cent growth in non-tax revenues. Capital receipts comprising the non-debt capital receipts and borrowings and other liabilities were expected to remain unchanged more or less at the 2005-06 (RE) levels. An expected decline in receipts from recoveries of loans was to be neutralised by an increase in other receipts and borrowings (Table 2.2).

2.11 Budget further strengthened the continuing shift in the compositional structure of taxes from regressive indirect taxes to direct taxes. The proportion of direct taxes to gross tax collections of the Central Government, which had increased from 19.1 per cent in 1990-91 to 43.8 per cent in 2005-06, was projected to grow to 47.6 per cent in 2006-07 (BE). The direct tax-GDP ratio, which was only 1.9 per cent in 1990-91, was expected to improve to 5.1 per cent in 2006-07. With indirect tax-GDP ratio stabilising at 5.3 to 5.6 per cent in the last four years, a distinct recovery in gross tax-GDP ratio was envisaged with the ratio going up to 11.2 per cent (which with the recent upward revision in GDP now works out to 10.8 per cent) in 2006-07 (BE) (Table 2.3).

Table 2.3 : Sources of tax revenue

	1990-91 Actuals	1995-96 Actuals	2001-02 Actuals	2002-03 Actuals	2003-04 Actuals	2004-05 Actuals	2005-06@ (Prov.)	2006-07 (BE)
(Rs. crore)								
Direct (a)	11,024	33,563	69,197	83,085	105,090	132,172	160,119	210,684
Personal Income tax	5,371	15,592	32,004	36,866	41,387	49,259	60,440	77,409
Corporation tax	5,335	16,487	36,609	46,172	63,562	82,680	99,433	133,010
Indirect(b)	45,158	76,806	116,125	131,284	147,294	170,936	199,351	230,566
Customs	20,644	35,757	40,268	44,852	48,629	57,611	65,070	77,066
Excise	24,514	40,187	72,555	82,310	90,774	99,125	111,226	119,000
Service tax	0	862	3,302	4,122	7,891	14,200	23,055	34,500
Gross tax revenue #	57,576	111,224	187,060	216,266	254,348	304,958	365,874	442,153
Tax revenue as a percentage of gross tax revenue								
Direct (a)	19.1	30.2	37.0	38.4	41.3	43.3	43.8	47.6
Personal Income tax	9.3	14.0	17.1	17.0	16.3	16.2	16.5	17.5
Corporation tax	9.3	14.8	19.6	21.3	25.0	27.1	27.2	30.1
Indirect(b)	78.4	69.1	62.1	60.7	57.9	56.1	54.5	52.1
Customs	35.9	32.1	21.5	20.7	19.1	18.9	17.8	17.4
Excise	42.6	36.1	38.8	38.1	35.7	32.5	30.4	26.9
Service tax	0.0	0.8	1.8	1.9	3.1	4.7	6.3	7.8
Tax revenue as a percentage of gross domestic product*								
Direct(a)	1.9	2.8	3.0	3.4	3.8	4.2	4.5	5.1
Personal Income tax	0.9	1.3	1.4	1.5	1.5	1.6	1.7	1.9
Corporation tax	0.9	1.4	1.6	1.9	2.3	2.6	2.8	3.2
Indirect(b)	7.9	6.5	5.1	5.3	5.3	5.5	5.6	5.6
Customs	3.6	3.0	1.8	1.8	1.8	1.8	1.8	1.9
Excise	4.3	3.4	3.2	3.3	3.3	3.2	3.1	2.9
Service tax	0.0	0.1	0.1	0.2	0.3	0.5	0.6	0.8
Total#	10.1	9.4	8.2	8.8	9.2	9.8	10.3	10.8
<p>@ Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance.</p> <p># includes taxes referred in (a) & (b) and taxes of Union Territories and "other" taxes. .</p> <p>* Refers to gross domestic product at current market prices.</p> <p>Note: (1) Direct taxes also includes taxes pertaining to expenditure, interest, wealth, gift and estate duty. (2) The ratios to GDP for 2006-07 (BE) based on CSO's Advance Estimates. GDP at current market prices prior to 1999-2000 based on 1993-94 series and from 1999-2000 based on 1999-2000 series.</p>								
Source : Budget documents								