

## What's the difference between a full Budget and an interim Budget?

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**Budget 2019: At the end of its term, a government usually presents a vote on account rather than a full Budget. What is the difference? A look at what interim Budgets have covered over the years, or left for the next government.**

On February 1, the government is set to present its last Budget ahead of the elections. Conventionally, a government at the end of its term has gone in for a vote on account rather than a full Budget. How are these different?

### What is a vote on account?

A vote on account, also known as interim Budget, essentially means that the government seeks the approval of Parliament for meeting expenditure for the first four months of the fiscal year (April-March) — paying salaries, ongoing programmes in various sectors etc — with no changes in the taxation structure, until a new government takes over and presents a full Budget that is revised for the full fiscal. Over the years, some governments have made policy announcements or tweaked tax rates in the vote on account. Such practices are now being recalled, amid indications that the government may present more than a vote on account on February 1.

### Why present a vote on account?

The reasoning is that there is little time to get approvals from Parliament for various grants to ministries and departments, and to debate these as well as any provisions for changes in taxation. More importantly, the reasoning is that it would be the prerogative of the new government to signal its policy direction, which is often reflected in the Budget. So, starting 1948, when Finance Minister R K Shanmukham Chetty presented a vote on account and followed it up with Independent India's first regular budget, most governments have followed this convention.

Many Finance Ministers, including two who went on to become President, R Venkataraman and Pranab Mukherjee, noted in their interim Budgets how constitutional propriety calls for the new government to formulate the tax and expenditure policies for the next fiscal year. But a distinction is sought to be made between a government that is expected to continue in office and a scenario where polls are to follow.

How did previous NDA Finance Ministers approach interim Budgets?

Yashwant Sinha: He presented interim Budgets for two governments — Chandra Shekhar's in 1991 and Atal Bihari Vajpayee's in 1998 — and reckons that "taking liberties" is kosher when a government is expected to continue, but not when polls are near. In the shadow of India's biggest balance-of-payments crisis, Sinha was forced to present an interim Budget in March 1991 because the Congress, which had supported the Chandra Shekhar government, declined to back the full Budget. Sinha said in his Budget speech that his government was engaged in the formulation of a comprehensive approach to provide a sustainable solution to problems. "This needs time. I would, therefore, plead with the House to wait until the regular Budget for 1991-92 is presented in May 1991," he told Parliament. That did not happen, with the government collapsing a few days later. Yet in the interim Budget, Sinha announced the country's first policy on disinvestment, saying the government would disinvest up to 20% of its equity in select state-owned firms in favour of mutual funds and financial and investment institutions to raise Rs 2,500 crore in 1991-92. Sinha now says it was a tentative announcement (which was carried forward by Manmohan Singh as Finance Minister in the Budget of July 1991) and not dictated by

the International Monetary Fund, with which the government was negotiating for assistance. Venkataraman, too, in his interim Budget of 1980-81, pleaded with the House to wait until a regular Budget to adopt measures to get the country moving again as there was no time to work on estimates and to print the Budget.

Jaswant Singh: In the final year of the Vajpayee-led NDA government, with the economy rebounding after more than three sluggish years, Singh in the interim Budget of February 3, 2004 announced changes in the stamp duty structure, revival packages for the tea and sugar industries and merging of dearness allowance with basic pay. “While changes in the Income-Tax Act are currently not being proposed, it is the conviction of the government and also our commitment that fiscal benefits available to new projects in the power sector should be extended up to 2012,” the interim Budget said. Tax benefits in the form of long-term capital gains tax for investing in listed firms, too, were extended for a further three years to provide stability. The baggage allowance of Rs 25,000 that Indians travelling overseas and returning are now allowed was first raised in that interim Budget. The government was criticised for presenting what was termed a mini-budget, especially as this had been preceded, on January 8, 2004, by an announcement of major changes in both direct and indirect tax. The peak rate of customs duty on non-farm goods had been reduced from 25% to 20%, the special additional duty on customs duty of 4% abolished, and customs duty had been lowered on project imports, coal and the power sector. Sinha, Singh’s predecessor as Finance Minister and a Cabinet colleague then, concedes now that a government on its last legs took some liberties, which he does not consider proper.

### **And what was the UPA approach?**

Pranab Mukherjee: He presented the interim Budget in 2008-09 at the end of the first term of the UPA government. Acknowledging that the term of the government was coming to an end, and citing constitutional propriety, he said extraordinary economic circumstances merit extraordinary measures. “Now is the time for such measures,” he said, going on to announce the easing of fiscal targets to provide what he termed a much-needed boost to demand for countering the situation created by the global meltdown. That was when the fiscal deficit target was revised hugely from the budgeted 2.5 % to 6% — after Mukherjee had in January announced a major fiscal stimulus marked by tax cuts aggregating Rs 40,000 crore. Many economists and some ministers still view that as the trigger for a downward slide in fiscal correction.

P Chidambaram: Having returned to the Finance Ministry after Mukherjee moved to Rashtrapati Bhavan, Chidambaram started his presentation of the interim Budget on February 17, 2014: “As I prepared to write this speech, I found that whether it is a regular Budget for the full year or an interim Budget, some things remain the same.” He said that in keeping with convention, he did not propose to make any announcements regarding changes to tax laws. That was followed by: “However, the current situation demands some interventions that cannot wait for the regular Budget. In particular, the manufacturing sector needs an immediate boost.” Chidambaram proposed some changes in indirect tax to stimulate growth in capital goods and consumer non-durables with a lowering of excise duty on many goods — with the rider that the rates could be reviewed again at the time of the regular Budget — while reducing excise duty up to June 30, 2014 for small cars, motorcycles, scooters and SUVs besides large and mid-segment cars, and tax relief for mobile handsets.

### **Does the Opposition usually challenge provisions in interim Budgets?**

That 2014 interim Budget led to a political slugfest, with Jaswant Singh calling it more of an election Budget rather than an interim Budget. “The principle of an interim Budget enjoins either withholding policy pronouncements for the post-election successor government or doing so only through discussions and consultation,” Singh said. Narendra Modi, then Gujarat Chief Minister and the prime ministerial candidate, tweeted that the interim Budget was “UPA’s final act of misery after a decade of decay and policy paralysis,” and took a dig at the “hard working” Finance Minister. In response, Chidambaram told news agency PTI: “I don’t want to take the level of this debate to class 8 schoolboy’s debate.” He told BBC that “what he (Modi) knows about economics can be written on the back of a postage stamp.” Modi hit back after the NDA came to power in May 2014. When a top economic adviser of the UPA made a courtesy call, Modi apparently asked him why the economy had floundered when the UPA has so many economists led by his predecessor Manmohan Singh.

Are there any indications what the upcoming Budget will be like?

With the announcement of decisions such as the 10% quota for the economically backward in the run-up to February 1, the government could well be pursuing a scorched-earth policy. This could come with risks

such as fiscal imbalances (for the record, it has stuck to targets so far) or inviting the wrath of financial purists. It remains to be seen what the Finance Minister says on February 1 about the state of the economy, or what measures he unveils or policy directions he signals.

As Chidambaram said in 2014, whatever the form of the Budget, “some things remain the same”. No-where among the other top economies (India now features in the top half-dozen) is there such hype over budgets; they are just statements of expenditure and revenue. With GST in force, decisions on taxing goods and services are now with the GST Council where state governments have an influential voice. With increased devolution or proceeds of taxes, the action has shifted much more to states. Greater integration with the global economy also means that developments in China will have an impact, as will the projected slower pace of global economic growth this year. The point is whether budgets are given far too much importance, and whether any policy changes announced now will be clawed back by another government that believes in a different political and economic philosophy.

As Manmohan Singh told The Indian Express in an interview in 2016, “I think in a crisis, we act constructively; when it is over, status quo takes over.” Whether that will change is what many will be looking at.

GS World Team...

## Interim budget and general budget

### Why in the discussion?

- Railway Minister Piyush Goyal will present the interim budget on February 1, instead of Finance Minister Arun Jaitley for the financial year 2019-20.
- Goyal has been given additional charge of Finance and Corporate Affairs Ministry due to Arun Jaitley being unwell.
- This time the interim budget will be introduced instead of the general budget.
- According to the tradition, the year the Lok Sabha elections are held, the central government offers the budget for a few months instead of the entire fiscal year and after the elections, the newly constituted government presents the complete budget.

### What is the interim budget?

- We also know the interim budget by the name so vote-on-account, accounting demand and mini budget.
- When the Central Government does not have time to present the full budget, it present the interim budget.
- At the time of the Lok Sabha election, the government has time, but according to the tradition, the budget is presented for the time being till the election is completed.
- This is only for a few months, instead of a whole year. However, there is no obligation to present the interim budget, but according to the tradition, it is left to the next government.

- After the formation of a new government, he present a general budget.

### When is the interim budget presented?

- The present government presents an interim budget in that situation when it does not have sufficient time to present a full budget or the election of the Lok Sabha is very close.
- In the event of being close to the Lok Sabha elections, the responsibility of presenting a full budget is on the new government.

### Background

- The first budget of Independent India was presented by R K Shanmukham Chetty on November 26, 1947.
- RK Shanmukham Chetty was the finance minister in the country's first Prime Minister Pandit Jawaharlal Nehru's Cabinet. Although this was not a complete budget, it was a review of the country's economic policy and economy.
- Neither new rules were enforced in this budget nor any new tax system was implemented, because in the budget of 1948-1949 only 95 days were left.

### What is the general budget?

- The Constitution does not mention the word 'budget', which is called a general budget in colloquial language, it has been called the Annual Financial Statement in Article 112 of the Constitution.
- In Financial Statement, the estimated receipts and expenses are detailed in a account of the Government for that year. The general budget shows the direction of the government's economic policy. It involves the allocation of money to the ministries for their expenses.

- Generally, the details of tax proposals are presented for the coming year.

#### What is a vote on account?

- The government does not make any policy decision under the vote on account.
- The theoretical argument behind this is that the government of the other party or the coalition can get elected, in such a situation the existing government can not take policy decisions for the whole year.
- However, the rules on this are not clear and it is also not binding.

#### Differences in the interim budget and general budget

- Both budgets are approved by the Parliament for government expenditure, but the interim budget gets separates from the general budget.
- Generally the government does not take any policy decision in the interim budget. However, it does not have any constitutional obligation. The government formed after the election takes decisions according to

its policies and declares the plans.

- However, some finance ministers have taken policy decisions like cuts in pre-tax rates. This time expectations from the Interim Budget of Finance Minister Arun Jaitley are that the income class may get some exemption in tax.

#### Difference in Interim Budget and Vote On Account

- When the central government seeks permission from Parliament for a few months instead of a full year, it can present a vote-on-account instead of the interim budget.
- Both the interim budget and the vote on account are for a few months but there is a difference in the way both of them are presented.
- In the interim budget, the central government gives details of the revenue other than the expenditure, whereas in the vote on account it seeks approval from the Parliament for expenditure.

#### Expected Questions (Prelims Exams)

##### 1. Consider the following statements-

1. In interim budget, the central government gives the account of revenue along with expences.
2. In vote on account, the central government asks for the approval of only expenses from the parliament.

Which of the above statements is/are correct?

- (a) Only 1                      (b) Only 2  
(c) Both 1 and 2              (d) Neither 1 nor 2

##### 2. Consider the following statements-

1. Interim budget is also called mini budget.
2. Word 'Budget' is mentioned under the article-112 of the Constitution which is colloquially called general budget.

Which of the above statements is/are correct?

- (a) Only 1                      (b) Only 2  
(c) Both 1 and 2              (d) Neither 1 nor 2

#### Expected Questions (Mains Exams)

**Q. Elucidating full budget and interim budget, explain the important process of interim budget.**

**(250 Words)**

**Note:** Answer of Prelims Expected Question given on 25 Jan. is 1(c) 2 (c)