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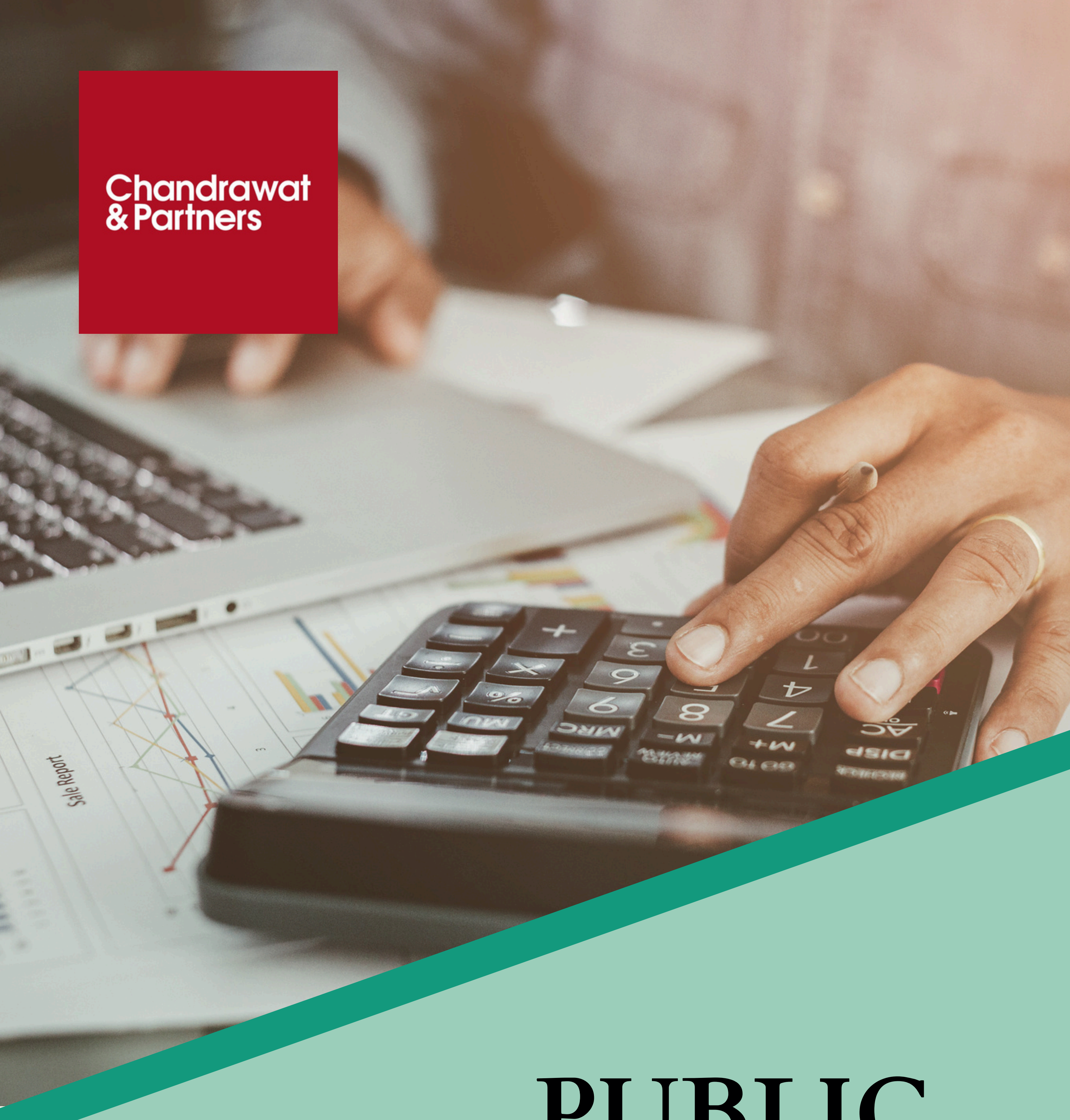

PUBLIC FINANCE

A guide on the global public finance sector.

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Table of Contents

Contents **Page no.**

Intoduction

The management of a country's revenue, expenditures and debt load through various government and quasi-government entities is known as public finance. Public finances have become increasingly important in our society as governments seek new ways to sustain services such as education, health care, infrastructure maintenance, defense and safety spending and transfer payments.

Public finance is critical in supporting governments in making sound financial decisions while also assisting individuals in understanding why certain decisions must be made. By considering both economic efficiency and equitable issues when deciding whether to allocate resources to a specific programme or project, public finance fosters efficient decision-making that leads to economic stability.

One of the more traditional subfields of economics, public finance emphasizes the function and role of government in the economy. A region's inhabitants established a formal or informal entity known as the government to carry out a variety of tasks, including providing for social requirements like education and healthcare as well as protecting the populace's private property from outside threats.

The proper role of government provides a starting point for the analysis of public finance. In theory, under certain circumstances, private markets will allocate goods and services among individuals efficiently (in the sense that no waste occurs and that individual tastes are matching with the economy's productive abilities). If private markets were able to provide efficient outcomes and if the distribution of income were socially acceptable, then there would be little or no scope for government.

Economic overview

Sectors

India has a diverse economy with several sectors contributing to its growth. The services sector is the largest contributor to GDP. Major industries within the services sector include information technology, telecommunications, finance and retail.

India has a young and rapidly growing population. With over 1.486 billion people, it is the second-most populous country globally. The large workforce provides both opportunities and challenges for the economy, including the need for job creation and skill development.

Economic Reforms

India has undertaken various economic reforms to liberalize its economy and attract foreign investment. These reforms include the dismantling of licensing and permit raj, introduction of Goods and Services Tax, easing of foreign direct investment norms and initiatives such as "Make in India" to promote manufacturing.

Agriculture

Agriculture plays a significant role in India's economy, employing a substantial portion of the workforce.

Governing rules and laws

- **Constitution of India:** The Constitution of India provides the framework for fiscal powers and responsibilities between the central government and the state governments. It outlines the distribution of taxation powers and establishes principles for financial relations between different levels of government.

- **Fiscal Responsibility and budget management Act:** The ("FRBM") Act aims to ensure fiscal discipline and the prudent management of public finances. It sets targets for fiscal deficit and debt reduction and provides a legal framework for fiscal policy and budgetary practices.

- **Union budget and state budgets:** The Union Budget is presented annually by the central government, while each state has its budget. These budgets are prepared by the relevant budget rules and guidelines and are subject to parliamentary or legislative approval.

- **Income Tax Act and GST Act:** The Income Tax Act governs the levy, collection and administration of income tax in India. It provides the legal framework for the taxation of individuals, corporations and other entities.

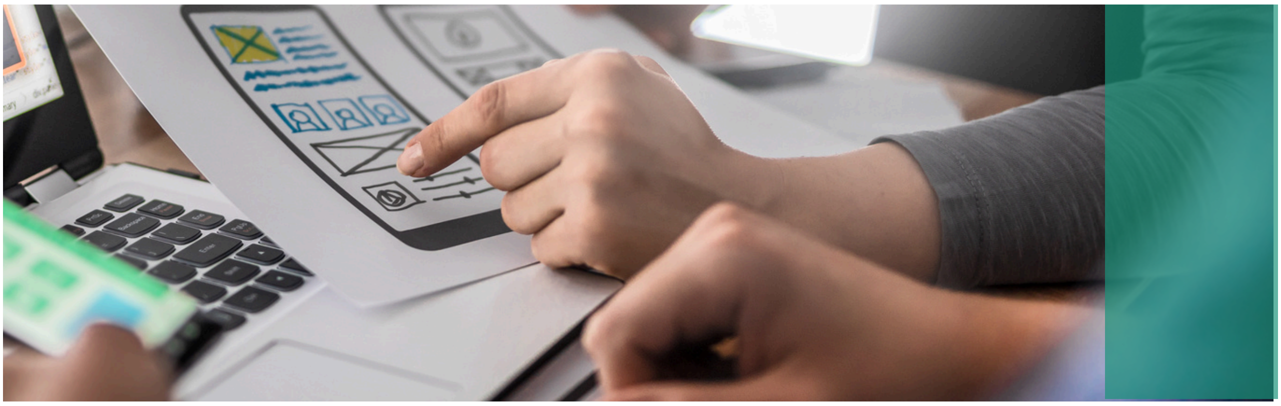
- **Reserve Bank of India Act:** The RBI Act establishes the Reserve Bank of India as the central bank of the country. The act empowers the RBI to regulate monetary policy, including interest rates, money supply and foreign exchange management.

- **Comptroller and auditor general act:** The ("CAG") Act establishes the Office of the Comptroller and Auditor General of India. The CAG is responsible for auditing the accounts and financial transactions of the central and state governments, including public sector undertakings.

- **Securities and exchange board of India Act:** ("SEBI") regulates and oversees the securities market in India. It ensures investor protection, promotes fair practices and regulates capital market transactions.

- **Goods and services tax council:** The Goods and Services Tax Council is a constitutional body established under the GST Act. It comprises representatives from the central and state governments and is responsible for making recommendations on GST-related issues, including tax rates, exemptions and administrative matters

License and registration



In the context of public finance, the terms "license" and "registration" are often used to refer to certain legal requirements and processes that individuals or entities must comply with to engage in specific activities or professions or to operate within the realm of public finance.

Below mentioned are the breakdown of these concepts:

- **Chartered Accountant ("CA"):** To provide financial and auditing services, individuals can pursue the Chartered Accountant qualification and obtain membership with the Institute of Chartered Accountants of India (ICAI). CAs play a significant role in public finance by offering financial expertise, conducting audits and providing advisory services.

- **Goods and Services Tax ("GST") Registration:** Entities engaged in providing taxable services or trading goods beyond the threshold limit specified under the GST Act are required to register for GST. This registration enables the collection and payment of GST on behalf of the government.

- **Securities and Exchange Board of India ("SEBI") Registration:** For entities involved in securities trading, such as brokerage firms, portfolio managers and investment advisors, registration with SEBI is required.

- **Registration with the Reserve Bank of India ("RBI")**: Entities involved in financial activities such as banking, non-banking financial companies (NBFCs) or payment system providers need to obtain specific registrations and licenses from the RBI.

Role of public finance in distribution and development

Public funds play a significant role in the growth and development of a country. Public funds, if managed effectively, can benefit a nation in multiple ways, both domestically and internationally.

Listed below are the primary objectives of public finance:

- **Sources of government revenue**

Government revenue is the money that the government receives through taxes and non-tax sources to undertake government expenditures. The revenue receipts are recurring in nature. A receipt is a revenue receipt if –

1. It does not create any liability for the government.
2. It should not lead to a fall in the assets of the government.
3. The revenue receipts are non-redeemable and can be further classified into tax revenue and non-tax revenue.

- **Subsidy**

A subsidy is a financial aid that the government provides to an economic sector. This is to promote economic and social policy. A subsidy can be either a direct subsidy or an indirect subsidy. Cash grants and interest-free loans are examples of direct subsidies.

- **Crowding**

When the increased interest rates lead to a fall in private investment spending in such a way that it depresses the initial increase of the total investment spending, it is known as the crowding-out effect. It happens when the government raises taxes to fund the introduction of new welfare programs or the expansion of existing ones. Due to higher taxes, individuals and businesses are left with lesser discretionary income to spend.

Dispute resolution

Dispute resolution in public finance refers to the process of resolving conflicts and disagreements that arise in the context of public financial matters. These disputes can involve various parties, including government entities, public agencies, financial institutions, contractors, vendors and taxpayers. The resolution of such disputes is crucial to maintain transparency, accountability and effective functioning of public finance systems.

Here are some common methods and mechanisms used for dispute resolution in public finance:

- **Administrative grievance redressal**

When individuals or entities have grievances related to public finance matters, they can approach the concerned administrative authorities.

- **Arbitration**

Arbitration is a commonly used method of dispute resolution in public finance. Parties involved in a dispute can agree to resolve their disagreements through arbitration rather than pursuing litigation in courts.

- **Alternative dispute resolution**

ADR methods such as mediation and negotiation can be employed to resolve public finance disputes. These processes involve the involvement of neutral third parties who assist the disputing parties in reaching a mutually acceptable resolution.

- **Constitutional remedies**

If a dispute involves a violation of fundamental rights or constitutional provisions, individuals or entities can seek remedies through writ petitions under Articles 32 and 226 of the Indian Constitution.

Role of public finance in allocation of resources

The economy has two types of goods, known as private goods and public goods. Private goods are exclusive, this means that the person buying them will get the benefits from it.

However, public goods are non-exclusive in nature and anyone and everyone gets the benefit of them. Public finance deals with allocating public funds in such a way that everyone gets the benefit of them, equally and without any discrimination. The government looks after maintaining law and order, defense against foreign attacks, building infrastructure and more.

There are large disparities in income and wealth. This disparity sows the seed of crime in society. Public finance works on cutting down these disparities by its distributing function. It helps in the corrective distribution by charging high taxes from the rich and paying subsidies to the poor, by using the technique of progressive taxation or by imposing high taxes on luxury goods. It helps the economy to grow as a whole and promotes development in the areas that have been earlier left behind.

Importance of public finance

• Constant economic growth

The government of India to maintain a constant economy depends on certain tools such as tax, national budget, investment and debt of the nation. The role of these tools is to boost the economy of the nation by fulfilling the supply and demand of the products

• Economical balance

Indian government depends on taxes, these taxes help in fulfilling the financial debt of the nation. The role of taxes is to pay all the foreign debt hence maintaining an economic balance

• Fixed-price

With the government tools such as taxes, national budget, etc controlling the inflation rate of the nation is a good source of public finance

• Equitable development

With the constant economical growth of both the low-level sector and high-level sector grow proportionally or equitable

• Infrastructure development

One of the importance of public finance is to develop the infrastructure such as schools, hospitals, provide sanitation facilities, drinking water facilities, roads, etc to their public

Requirement for better public financial management

Effective public financial management, known as public financial management, is fundamental to the development and growth of the economies of individual countries. As populations grow, resources shrink or economies become more complex, the importance of PFM increases.

They also expect finances to be collected and spent fairly and in accordance with the law, surpluses, deficits, and debt levels understandable and manageable. In addition, the private and public sectors are largely interdependent and must trust each other if they are working together to develop cities and countries. Such confidence requires government accountability and transparency in both decision-making and reporting. When such expectations are not met—when trust is lost—there can be serious consequences.

- **Good governance**

The good governance of the nation has a good vision about the future economy and they know the visibility of error. Good governance always thinks about the betterment of the public and does efficient progressive work.

- **Transparency**

The government of India needs to maintain proper transparency without any corruption to use proper public finance.

- **Successful leadership quality**

Successful leaders can have good skills, ideas, communication, however, is better for financial management.

Constituents of public finance

Public finance contributes the holistic development and well-being of the macroeconomics of the society. This results in the sustained growth consistent with the time in full transparency.

Public revenue is composed of the following components

Collection of revenue

The primary and utmost important component is the collection of the revenue by taxes, fines, charges, import duty, fees, etc., to run the economy.

Public expenditure

Expenditure involves public expenditure and government expenditure. Public expenditure includes the infrastructure and other expenses necessary to run the government, like salaries. Preparation of Budgets. The budget is the annual forecast of the revenue and expenditures to analyse the need for the debtor to invest in the finance.

Analysing the need for Debt or investment

The important component of public finance is to analyse whether there will be a shortage of funds or availability of excess funds and accordingly deploy the funds.

Preparation of budgets

The budget is the annual forecast of the revenue and expenditures to analyze the need for the debtor to invest in the finance.

Types of public finances

Public revenue

The income collected through different sources is known as public revenue or public income. There are several sources of Public finances, including non-tax revenue and tax revenue. Non-tax revenue includes administrating revenue, commercial revenue, gifts and grants and irrigation charges.

Public debt

It is the total amount of money that government owes to the public as a part of development funds. All prior deficits in addition, are known as public debt. In public finance, it is also known as public interest, government debt, national debt and sovereign debt. The public debt can also be owed to lenders within the country. Even foreign leaders can owe money to the public, but this type of debt is called external debt. By handing out government bonds and bills, the government can create public debt.

The debt that is the addition of all prior deficits is also termed public debt. If one person wants to analyse the public debt, the common method to do so is to check the duration until the repayment is due. Debt can be either short-term, medium-term or long-term. A debt of one year or less is generally considered short-term debt. In contrast, the ones that go for around ten years or longer come under long-term debt. The one that is between these two ranges is the medium-term debt.

How we can help?

Chandrawat and Partners specializing in public finance can provide valuable assistance in navigating the dispute. Our law firm's attorneys have in-depth knowledge and expertise in the laws and regulations governing the public finance sector.

- We can conduct due diligence exercises and risk assessments related to public finance transactions. This includes evaluating legal, regulatory and compliance risks associated with financial investments, loan agreements, debt issuances and other financial transactions.

- We also draft necessary legal documents, such as settlement agreements orarbitration clauses.

- We analyze the facts and circumstances of the dispute, assess the applicable laws and provide legal advice on the best course of action.

- Our law firm can represent clients' interests throughout the dispute resolution process. We can engage in negotiations with the opposing party, attend mediation sessions or advocate for your position in arbitration or litigation proceedings.

- Our team can provide legal guidance on the applicable laws, regulations and compliance requirements related to public finance in India. This includes advising on financial regulations, taxation laws, public procurement rules and fiscal management policies.

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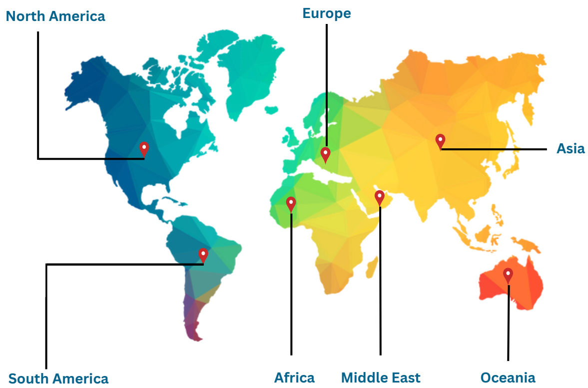

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