

Budget and Taxation

■ AFCAT Economics · ECA02

✦ AFCAT Level : High Priority

Budget & Taxation for AFCAT: crisp definitions of expenditure types, deficit formula, and GST structure. Direct questions, no deep analysis.

✦ **AFCAT Pattern:** Revenue vs Capital expenditure • Fiscal Deficit formula • Direct vs Indirect tax • GST (“One Nation One Tax”) • CGST/SGST/IGST

Budget Concepts & Taxation

- ▶ **Revenue Expenditure:** Day-to-day operations (salaries, interest payments, subsidies). Does NOT create assets.
- ▶ **Capital Expenditure:** Creates assets or reduces liabilities (roads, railways, dams, defence equipment). Investment in nature.
- ▶ **Fiscal Deficit = Total Expenditure – Total Receipts (excluding borrowings).** Government’s total borrowing requirement. FY26 target = 4.4% of GDP.
- ▶ **Revenue Deficit = Revenue Expenditure – Revenue Receipts.**
- ▶ **Direct Tax:** Cannot be shifted. Income Tax, Corporate Tax. Collected by CBDT.
- ▶ **Indirect Tax:** Shifted to consumers in price. GST, Customs. Collected by CBIC.
- ▶ **GST: Implemented 1 July 2017.** “One Nation, One Tax.” CGST (Centre, intra-state) + SGST (State, intra-state). IGST (Centre, inter-state). Rate slabs: 0%, 5%, 12%, 18%, 28%.
- ▶ **Union Budget FY26:** Defence = Rs 6.81 lakh crore (highest ever); Total = Rs 50.65 lakh crore; Capital Expenditure = Rs 11.21 lakh crore.

Q1. Salaries of government employees are classified as: (AFCAT I 2024)

- (a) Capital expenditure (b) Revenue expenditure (c) Transfer expenditure (d) Development expenditure

Answer: (b) Revenue expenditure

Revenue expenditure = does NOT create assets; recurring. Salaries, subsidies, interest payments = revenue. Roads, dams, defence hardware = capital expenditure (creates assets or reduces liabilities). AFCAT often tests this distinction.

Q2. GST is an example of which type of tax? (AFCAT II 2023)

- (a) Direct tax (b) Progressive tax (c) Indirect tax (d) Wealth tax

Answer: (c) Indirect tax

GST = Goods and Services Tax; indirect tax (burden shifted to final consumer in price). Income tax = direct tax (borne by the person it falls on). GST replaced 17+ central and state indirect taxes. "One Nation, One Tax." Implemented 1 July 2017.

Rapid Revision – ECAo2

Budget

- ∴ Revenue Exp = salaries, interest (NO assets)
- ∴ Capital Exp = roads, dams (CREATES assets)
- ∴ Fiscal Deficit = Total Exp - Receipts (excl borrowing)
- ∴ FY26 FD target: 4.4% of GDP
- ∴ FY26 Defence: Rs 6.81 lakh crore (highest ever)

GST

- ∴ 1 July 2017; "One Nation One Tax"
- ∴ Intra-state: CGST + SGST
- ∴ Inter-state: IGST only
- ∴ GST Council: Finance Minister chairs
- ∴ Indirect tax (shifted to consumer)

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