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Topic: Sources of Revenue of Central Government

The following points highlight the nine main sources of government revenue. The sources are: 1. Tax 2. Rates 3. Fees 4. Licence Fee 5. Surplus of the public sector units 6. Fine and penalties 7. Gifts and grants 8. Printing of paper money 9. Borrowings.

Source # 1. Tax:

A tax is a compulsory levy imposed by a public authority against which tax payers cannot claim anything. It is not imposed as a penalty for only legal offence. The essence of a tax, as distinguished from other charges by the government, is the absence of a direct quid pro quo (i.e., exchange of favour) between the tax payer and the public authority.

Tax has three important features:

- (i) It is a compulsory contribution, to the state from the citizen. Anyone refusing to pay tax is punished under law. Nobody can object to taxation on the ground that he is not getting the benefit of certain state services,
- (ii) It is the personal obligation of the individual to pay taxes under all circumstances,
- (iii) There is no direct relationship between benefit and tax payment.

Source # 2. Rates:

Rates refer to local taxation, i.e., taxation levied by (or for) local rather than central government. Normally rates are proportional to the estimated rentable value of business and domestic properties. Rates are often criticised as being unrelated to income.

Source # 3. Fees:

Fee is a payment to defray the cost of each recurring service undertaken by the government, primarily in the public interest.

Source # 4. Licence fee

A licence fee is paid in those instances in which the government authority is invoked simply to confer a permission or a privilege.

Source # 5. Surplus of the public sector units:

The government acts like a business- person and the public acts like its customers. The government may either sell goods or render services like train, city bus, electricity, transport, posts and telegraphs, water supply, etc. The government also earns revenue from the production of commodities like steel, oil, life-saving drugs, etc.

Source # 6. Fine and penalties:

They are the charges imposed on persons as a punishment for contravention of a law. The main purpose of these is not to raise revenue from the public but to force them to follow law and order of the country.

Source # 7. Gifts and grants:

Gifts are voluntary contribution from private individuals or non-government donors to the government fund for specific purposes such as relief fund, defence fund during war or an emergency. However, this source provides a small portion of government revenue.

Source # 8. Printing of paper money:

It is another source of revenue of the government. It is a method of creating extra resources. This method is normally avoided because if once this method of financing is started, it becomes difficult to stop it.

Source # 9. Borrowings:

Borrowings from the public is another source of government revenue. It includes loans from the public in the form of deposits, bonds, etc. and also from the foreign agencies and organisations.