

Plan and Non- Plan Expenditure of Government- Replaced with New Classification

1. The Government of India had announced in 2016, that the classification of plan expenditure and non-plan expenditure will be abolished.
2. The plan and non-plan classification was removed from 2017-18.
3. Henceforth the expenditures of the Government will be reclassified as Capital and Revenue spendings.

Plan and Non-Plan Expenditure - Reasons for Switching to Capital and Revenue Spending Classification

1. The primary reason behind the Government's decision in 2016 to switch the classification of Government expenditures was the recommendation given by the C Rangarajan Committee in 2011 to remove distinction between Plan and Non-Plan expenditure.
2. The plan to drop the old classification of Government expenditure was taken after the Planning Commission was dismantled.
3. Earlier, the decision on Plan expenditure was taken after Government discussions with the Planning Commission.
4. In the earlier system of expenditure classification, more importance was laid on planned expenditure.
5. In the newly adopted system of classification emphasis will be on the expenditures of the Government.
6. The new classification of Capital and Revenue Spendings will create a clear and effective link between Government's earnings, spendings and outcomes.

Capital and Revenue Expenditure

The distinction between Capital and Revenue Expenditure are given below.

Capital Expenditure

1. Loans to States & Union Territories
2. Loans to Public Enterprises
3. Loans to Foreign Governments
4. Acquisition of valuables

Revenue Expenditure

Any expenditure of the Government that does not lead creation of assets or liabilities will be clubbed under Revenue Expenditures. Some of the examples of Revenue Expenditure are given below.

1. Pensions
2. Wages to Government employees
3. Subsidies
4. Interest Payments