REPORT ON
1ST BIANNUAL MONITORING ON THE IMPLEMENTATION OF NFC AWARD

(July - December 2018)

Government of Pakistan
National Finance Commission Secretariat

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PREFACE

Article 160 of the Constitution of Islamic Republic of Pakistan authorizes the President of Pakistan to approve distribution of revenues between the federation and the provinces through an Order (the NFC Award), on the recommendations of the National Finance Commission (NFC).

2. The 7th NFC Award was signed on 30th December, 2009 and its recommendations were given legal cover with effect from 1st July, 2010, through President's Order No.5 of 2010 (Distribution of Revenues and Grants-in-Aid Order, 2010).

3. Clause 3(B) of Article 160 of the Constitution of Islamic Republic of Pakistan provides as follows:

> *"Federal Finance Minister and Provincial Finance Ministers shall monitor the implementation of the Award biannually and lay their report before both Houses of Majlis-e-Shoora (Parliament) and the Provincial Assemblies."*

4. In pursuance of the above provision, it is imperative upon the Finance Ministers of the Federal and Provincial Governments to monitor implementation of the Award biannually and lay a report before both Houses of the Parliament and Provincial Assemblies.

5. The bi-annual monitoring report for the period from July to December, 2018 was approved by the NFC Monitoring Committee in a meeting held on 12th March, 2020, at Islamabad for laying before both Houses of the Parliament and Provincial Assemblies.

6. Report contains details of FBR collections, vertical and horizontal distribution of shares of divisible pool and straight transfers to provinces as well as Federal and Provincial Governments efforts for streamlining tax collection and fiscal discipline during the period.

Naveed Kamran Baloch
Secretary
Finance Division

Islamabad, the 3rd April, 2020

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EXECUTIVE SUMMARY

This 1st Biannual Monitoring Report on implementation of 7th NFC award covers the period from July to December 2018 of Financial Year 2018-19. Total tax collection, as reported by FBR, remained Rs.2011.442 billion for the period under report. After subtracting non-divisible pool components and 1% each as collection charges and additionality for Khyber Pakhtunkhwa on account of War on Terror (WoT), the net divisible pool comes to Rs.1949.752 billion. On the basis of vertical distribution the Provincial share comes to Rs.1121.107 billion, and the balance of Rs.828.645 billion for Federal Government. The Provincial share has been distributed as follows:

- Rs.580.061 billion released to Punjab (51.74%);
- Rs.275.232 billion released to Sindh (24.55%);
- Rs.163.906 billion released to Khyber Pakhtunkhwa (14.62%). Khyber Pakhtunkhwa got additional Rs.19.694 billion as expenses on War on Terror (1% of undivided divisible pool); and
- Rs.101.909 billion to Balochistan (9.09%). Pursuant to the guarantee available in the Award that the share would not be less than budget estimates, Balochistan got Rs.10.149 billion as additionality. This amount has been released from the share of the Federal Government.

On account of Royalty on Crude Oil, Royalty on Natural Gas and Gas Development Surcharge, an amount of Rs.12.711 billion, Rs.20.067 billion and Rs.4.775 billion was transferred to the provinces respectively during July-Dec 2018 after deducting 2% collection charges. Similarly, an amount of Rs.4.672 billion has been transferred, on account of excise duty on Natural Gas to provinces during the report period.

The Province of Sindh is entitled to receive grant-in-aid equivalent to 0.66% of the provincial share out of the net proceeds of the divisible pool, as compensation for losses on account of abolition of Octroi and Zilla Tax (OZT). An amount of Rs.7.399 billion was released to Government of Sindh under this head.

INTRODUCTION

1.1 The recommendations of the 7thNFC (Award), concluded on 31th December, 2009, were given legal cover through President's Order No.5 of 2010"Distribution of Revenues and Grants-in-Aid Order 2010"**(Annex-I)**. The main responsibilities entrusted to the Federal and Provincial Governments through this Award are:

a. Distribution of Divisible Pool Taxes between the Federation and Provinces and amongst the Provinces as prescribed in the Award (Articles 3 and 4 of the Order).

b. Transfers of royalties, surcharge on gas and excise duty on gas to the Provinces as prescribed in the Award/ Constitution (Articles 5 & 6 of the Order).

c. Provision of obligatory grants to Provinces as prescribed in the Award (Article 7 of the Order).

d. Entrusting collection powers of GST on Services to Provinces (Article 8 of the Order).

e. Achieving 15% tax to GDP ratio by the terminal year of the Award i.e. 2014-15. To achieve this target, a path was recommended by the NFC for both Federal and Provincial Governments (Clause 2 of Article 9 of the Order).

f. Maintaining fiscal discipline both at Federal and Provincial levels (Clause 3 of Article 9 of the Order).

1.2 Clause (3B) of Article 160 of the Constitution empowers the Federal and Provincial Finance Ministers to monitor implementation of the Award biannually and lay a report in this regard in both Houses of the Parliament and the Provincial Assemblies. This 1st Biannual report presents the implementation status of the above provisions of the President's Order for the period from July to December, 2018. Articles 1 & 2 of the President's Order consist of title and definition and therefore no action warrants on these Articles.

DIVISION OF DIVISIBLE POOL TAXES

Articles 3 and 4 of the President's Order regulate the distribution of divisible pool taxes between the Federal and Provincial Governments (vertical distribution) and amongst the four Provinces (horizontal distribution).

2.1: FBR Tax Receipts

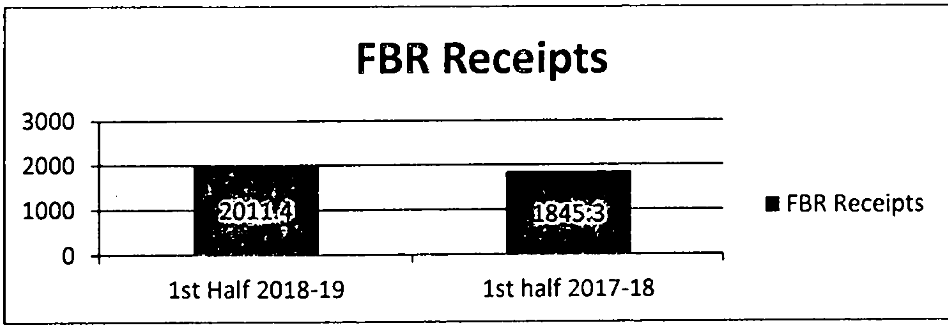
2.1.1 Federal Board of Revenues (FBR) reported tax collection of Rs.2,011.442 billion from July to December, 2018 (FY 2018-19), as presented in the following table:

TABLE-I:Total FBR Collection (July – Dec., 2018)

(Rs. in billion)

A	Provisional collection reported on fortnightly basis during July - December, 2018.	1587.973
B	Arrears worked out on receipt of final reconciled collection for F.Y. 2017-18 reported and released in F.Y. 2018-19	423.469
C	Total Collection reported during the period of report (A+B)	2,011.442

2.1.2 The Provinces were released funds on the basis of FBR collection during the 1st half of the FY 2018-19 amounting to Rs.2011.442 billion. During the corresponding period of last financial year (FY 2017-18), FBR reported collection of Rs.1845.304 billion (inclusive of arrears of previous year). As such there is a growth of 9% during the first half of the FY 2018-19 over the same of period of last FY 2017-18. The following chart shows a comparison of tax receipts:



2.2: Distribution of Divisible Pool Taxes

2.2.1 Article 3 (1) of the President's Order explain component of divisible pool taxes. Receipts of the FBR also include some non-divisible pool components. Therefore, after deducting such components, the gross divisible pool taxes were worked out to be Rs.1,997.235 billion against total tax receipts of Rs.2,011.442 billion. A detailed breakup in this regard is given as follows:

TABLE-II: Calculation of Gross Divisible Pool Tax

(Rs. in billion)

	1sthalf of 2018 -19
Total Collection FBR Receipts	**2,011.442**
Less Non-Divisible Pool Components	**14.207**
WWF	3.844
GST on Services (ICT)	1.384
Excise Duty on Natural Gas	4.767
Exp. Development Surcharge	4.212
Gross Divisible Pool Tax	**1,997.235**

2.3: Vertical Distribution

2.3.1 After subtracting the non-divisible pool components out of FBR receipts, net divisible pool is determined by deducting cost of collection (1%)and then entire proceeds are distributed between the Federation and Provinces in accordance with the provisions of Articles 3 & 4 of the Order. The details of vertical distribution are as follows:

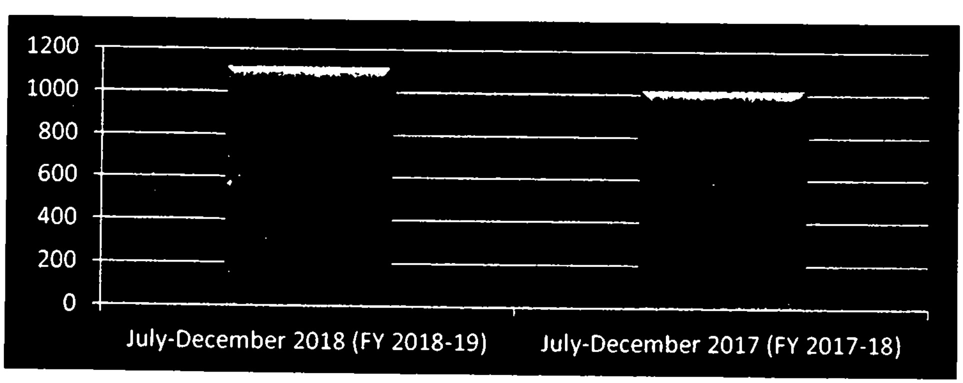
Table-III: Vertical Distribution of Share (July-Dec., 2018)

(Rs. in billion)

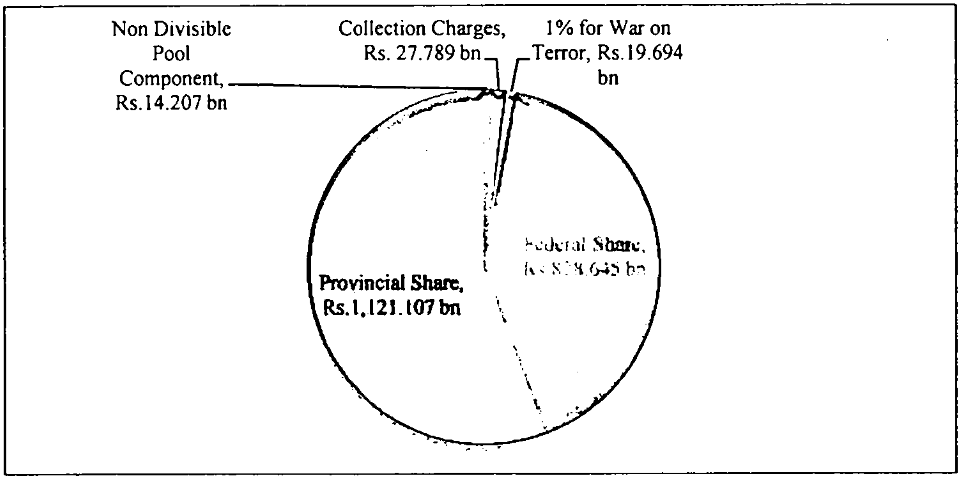
	Receipts	Collection Charges (1%)	Net Div. Pool Taxes	1% WoT for Khyber P'Khwa	Balance Net Div. Pool	Prov. Share (57.5%)
Divisible Pool Taxes	**1,997.235**	**27.789**	**1,969.446**	**19.694**	**1,949.752**	**1,121.107**
Income Tax	781.627	15.633*	15.633	7.660	758.334	436.042
Capital Value Tax	1.891	0.019	1.872	0.018	1.854	1.065
Sales Tax (Excl.GST on Services)	760.119	7.601	752.518	7.525	744.993	428.371
Federal Excise (Excl. E on NG)	105.847	1.058	104.789	1.048	103.741	59.651
Customs (Excl. Export Dev. Surcharge)	347.751	3.478	344.273	3.443	340.830	195.978

* Includes deduction of Income Tax paid out of Federal Consolidated Fund.

2.3.2 During 1st half of FY 2017-18, an amount of Rs. 1024.556 billion was transferred to the Provinces while the amount transferred during the period under report i.e. 1st half of FY 2018-19 comes to Rs. 1121.107 billion which shows an increase of 9.4%. Following chart shows comparison of Provincial Transfers:-



2.3.3 Following Pie Chart shows the distribution of Total Tax Collection:-



2.4: Horizontal Distribution

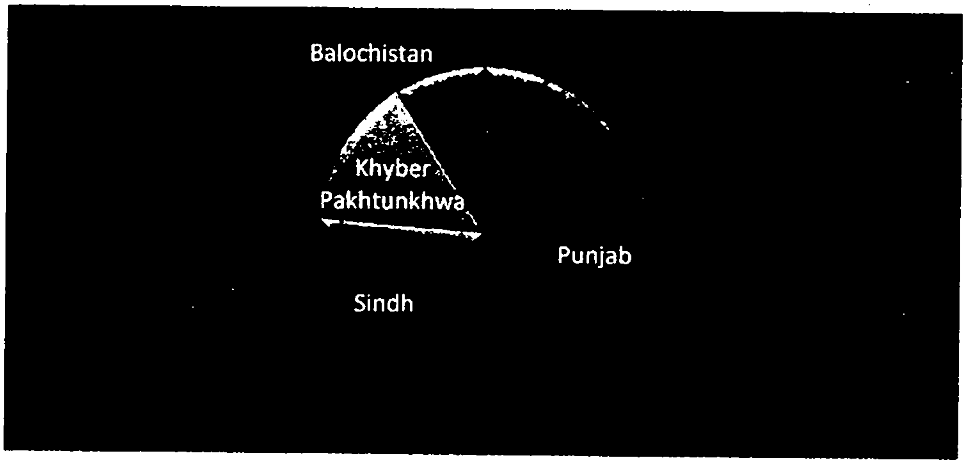
2.4.1 Article 4(2) of the President's Order provides percentage share of each Province in the Provincial share, out of divisible pool taxes. Provincial share against their percentages for the period from July-December, 2018 has been worked out as follows:-

Table-IV: Provincial Share out of Divisible Pool (July-Dec., 2018)

(Rs. in billion)

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	(100%)	(51.74%)	(24.55%)	(14.62%)	(9.09%)
Divisible Pool Taxes	**1121.041**	**580.061**	**275.232**	**163.906**	**101.909**
Income Tax	436.041	225.608	107.048	63.749	39.636
Capital Value Tax	1.067	0.552	0.262	0.156	0.097
Sales Tax(Excl.GST on Services) .	428.372	221.639	105.165	62.628	38.940
Federal Excise(Excl. ED on NG)	59.651	30.863	14.645	8.721	5.422
Customs(Excl. Export Dev. Surcharge)	195.977	101.399	48.112	28.652	17.814

2.4.2 Following Pie chart shows Horizontal Distribution of Provincial Share:-



2.5 Additionality to Khyber Pakhtunkhwa & Balochistan.

2.5.1 Article 3(2) of the President's Order entitles Province of Khyber Pakhtunkhwa to receive 1% of the net proceeds of undivided divisible pool taxes in addition to its formal share, on account of losses on WoT. An additional amount of Rs. 19.694 billion has been paid to Khyber Pakhtunkhwa Province on this account during the period of report. As this arrangement remains protected during the currency of the Award, the share of Khyber Pakhtunkhwa Province is calculated as under:-

Table-V:Additional Funds to Khyber Pakhtunkhwa (WoT)

(Rs. in billion)

	July-Dec., 2018 (F.Y 2018-19)
Khyber Pakhtunkhwa	
Share in the Divisible Pool (14.62%)	163.906
1% War on Terror	19.694
Total:-	**183.600**

2.5.2 Similarly, Clause (3) of Article 4 of the Order also guarantees that the Balochistan province shall receive the projected sum of its share in the net proceeds of divisible pool taxes and any shortfall shall be made up by the Federal Government from its own resources. As this arrangement for Balochistan remains protected during the currency of the Award, Federal Government paid an additionality of Rs.10.149 billion from its own resources, based on annual budgetary projections, to Balochistan Province during the period of report, as shown in the following table.

Table-VI: Additionality to Balochistan

(Rs. in billion)

	July-Dec., 2018 (F.Y 2018-19)
Balochistan	
Share in the Divisible Pool (9.09%)	101.909
Additionality provided by Federal Government	10.149
Total:-	**112.058**

STRAIGHT TRANSFERS/GRANTS-IN-AID

3.1: Distribution of Royalty on Crude Oil

3.1.1 Article 5 of the Order relates to the distribution of net proceeds of royalty on crude oil. Petroleum Division is responsible for collection of this levy and reports to Finance Division on monthly basis for onward transfer to the Provinces. Accordingly, entire net proceeds reported by Petroleum Division during July - December, 2018, were distributed amongst the provinces in accordance with the said provision, as follows:

Table-VII: Royalty on Crude Oil

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
1sthalf (FY-2018-19) (July - December, 2018)	2.106	2.650	7.954	.001	12.711

3.2: Distribution of Gas Development Surcharge and Royalty on Natural Gas

3.2.1 Article 6 of the President's Order (Award) governs distribution of Development Surcharge on Gas (GDS) and Royalty on Natural Gas. Petroleum Division is the collection agency for these two levies. The proceeds collected are reported to Finance Division on monthly basis for onward transfer to provinces. Accordingly, entire net proceeds of Royalty and Development Surcharge on Gas reported by Petroleum Division were distributed amongst the provinces in accordance with said provision. Following table gives details of distribution:

Table-VIII: Royalty on Natural Gas and GDS (July - Dec., 2018)

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.770	12.263	3.455	9.580	26.067
Gas Dev. Surcharge	0.293	3.620	0.121	0.741	4.775

3.3: Distribution of Excise Duty on Natural Gas

3.3.1 As per Article 161 (1) of the Constitution of Islamic Republic of Pakistan, the excise duty on Natural Gas is required to be paid to the province in which the well head of Natural Gas is situated. FBR is the collection agency for this levy. The proceeds so collected are reported to the Finance Division on monthly basis for onward transfer to provinces. Accordingly, net proceeds of Rs.4.672 billion were distributed amongst the provinces, as presented in the following table:

Table-IX: Excise Duty on Natural Gas

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
July - Dec., 2018	0.098	3.178	0.742	0.654	4.672

3.3.2 The figures reflected in the above table represent actual transfers and has been reconciled with the Finance Departments of the Provinces.

3.4 Grants-in-Aid to Sindh Province

3.4.1 Under Article 7 of the Order, Sindh province is entitled to receive a grant-in-aid equivalent to 0.66% of the provincial share in the net proceeds of the divisible pool as a compensation for losses on account of abolition of Octroi and Zila Tax (OZT). During the period of report, the provincial share in the divisible pool was Rs.1121.107 billion. Accordingly, said grant-in-aid was worked out to be Rs.7.399 billion, which stands released.

GENERAL SALES TAX ON SERVICES

4.1 General Sales Tax on Services (GSTS)

4.1.1 Article 8 of the Order relates to the General Sales Tax on Services. The 7th NFC accepted that General Sales Tax on Services is a provincial subject under the Constitution and may be collected by the respective Provinces, if they so desire.

4.1.2 All Provincial Governments have established their own Revenue Agencies and collecting GST on Services by themselves. Details of the GST collected by the Provincial Revenue Authorities during the period under report are as under:-

Table-X:GST Collection by the Provinces

(Rs in billion)

	Budget Estimate 2018-19	**Collection upto 31st December, 2018**
Punjab Revenue Authority	151.575	41.427
Sindh Revenue Board	110.000	43.427
Khyber Pakhtunkhwa Revenue Authority	15.000	4.463
Balochistan Revenue Authority	7.000	2.329

Source: Provincial Civil Accounts.

MISCELLANEOUS PROVISIONS OF PRESIDENT'S ORDER

5.1: Miscellaneous

5.1.1 Article-9 of the Order relates to miscellaneous recommendations. In this regard, clause 9(1) provide for increase in the rate of excise duty on Natural Gas to Rs.10.0 per MMBTU. The recommendation stands already implemented through Finance Bill, 2010.

5.2: Streamlining Tax Collection

5.2.1 Article-9(2) provides for streamlining of tax collection to improve taxation and to maintain fiscal discipline by the Federal and Provincial Governments. In this regard, the NFC recommended that the Federal and Provincial Governments would streamline their tax collection systems to reduce leakages and increase revenues through efforts to improve taxation in order to achieve 15% tax to GDP ratio by the terminal year of the Award i.e. 2014-15. It was also recommended that Provinces would initiate steps to effectively tax the Agriculture and Real Estate sectors. The projections regarding tax efforts recommended by the NFC were as follows:

Table-XI: Projections for increasing Tax-to-GDP ratio.

(As % of GDP)

	Benchmark	Projections				
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
FBR Taxes	9.30	10.30	11.20	12.00	12.70	13.25
Surcharges	0.90	0.80	0.80	0.70	0.60	0.60
Provincial taxes	0.50	0.65	0.80	0.90	1.00	1.15
Total	10.70	11.75	12.80	13.60	14.30	15.00
FBR tax efforts		*1.00*	*0.90*	*0.80*	*0.70*	*0.55*
Provinces' tax efforts		*0.15*	*0.15*	*0.10*	*0.10*	*0.15*

5.2.2 In pursuance of Article 9(2) of the Award, various steps taken by the Federal Government and Provincial Governments are reproduced as follows:

Federal Government

Expansion of the Scheme of Differential Taxation for Filers and Non-filers for Penalizing Non-compliant without adding any Further Burden on the Compliant

In order to increase compliance and enhance the tax revenues, the concept of filers and non-filers has been introduced. The cost of doing business for non-filers has been significantly increased in the recent years. This step was taken to encourage people to file income tax returns. Differential taxation for filers and non-filers has been introduced and number of filers has also been increased from around 750,000 in FY: 2012-13 to more than 1.97 million in FY: 2017-18.

1. **Rationalizing Corporate Tax Rates**

To rationalize the import tariff structure and to reduce the general tariff slabs, peak tariff slab of 30% was reduced to 20%. The existing tariff slabs are 4 with the peak of 20% and floor of 3%. In order to promote tax culture and corporatization in the country, it was decided to gradually reduce the tax rates for corporate taxpayers other than banks in the following manner:-

Tax year 2013	35%
Tax year 2014	34%
Tax year 2015	33%
Tax year 2016	32%
Tax year 2017	31%
Tax year 2018	30%
Tax year 2019	29%

Broadening of Tax Base and Documentation of Economy

For Broadening of Tax Base (BTB), FBR has taken several initiatives including use of third party data. Initially, the objective was to incorporate 300,000 new taxpayers in three years. The BTB drive has been successful. During the years 2013-14 to 2016-17, FBR issued 596,464 notices and enforced 264,539 income tax returns.

As a result of these efforts, the number of income tax return filers which was around 750,000 for the tax year 2012 has exceeded to more than 1.97 million in the tax year 2017-18 and would further increase in coming years. To broaden the tax net, different rates of adjustable withholding of income tax for the income tax filers and non-filers on certain transaction have been introduced. These include sales and purchase of immovable property, registration and transfer of ownership of motor vehicle, cash withdrawal from banks and payment of profit on debt and dividend income. The higher rates of tax for non-filers compel non-filers to file returns.

FBR has also chalked out a comprehensive plan to broaden the tax base through:

- Creation of a central data bank
- Enforcement of return in the case of all NTN holders
- Preparation of directory of non-filers deducts
- Data to be obtained from NADRA, Telecom Cos, Banking Cos, Development Authorities, Schools, Clubs, Hotels etc.
- Data of suppliers/buyers of sales tax returns of 5,000 big companies
- Raising expenditure on revenue collecting machinery from 0.8% to 1.5% of total revenue
- Registration of persons subjected to withholding of sales tax
- Registration of retailers under the new scheme introduced under Special Procedure Rules.

a. **Deployment of Technology to Identify Risk Areas to Support Risk Based Audit**

An audit plan has been reintroduced to accompany the self-assessment scheme and to overcome weak tax compliance. Substantial progress has been achieved for infrastructure up-gradation and development with the introduction of the fully Inland Revenue Information System (Iris), which is available to all the field formations. A paradigm shift from simple random selection to Parametric Computer Ballot selection of cases and finally risk based selection in audit has been introduced. Moreover, litigation against General Audit Policies was successfully defended before different Courts of Law.

Under the reform initiatives, Draft Audit Policy is under consideration and will be finalized after due deliberation/consultation with all concerned. Moreover, Risk-based Audit Framework is being devised to ensure a more targeted and focused approach with the help of World Bank. Training modules were prepared to impart Investigative Audit Training to officers with the help of World Bank.

b. **Behavioral Changes**

In order to promote tax culture, compliance and to dispel the general impression about evading taxation by individuals having prominent position in the society, FBR has under taken following initiatives for bringing a behavioral change regarding the tax culture perception in the society:

a. Publishing Tax Directory of Parliamentarians

b. Establishment of Financial Investigation Cell

c. Campaign against Tax Evaders

c. **End to End Automation and Facilitation of Taxpayers with Increased Use of Information Technology**

To simplify procedures and minimize contact between the taxpayers and the tax collectors, FBR management has made revolutionary changes in automation of tax procedures. Major achievements include:

i. Web Based One Customs (WeBOC) System of Clearance

ii. EDI - Electronic Data Interchange:

iii. National Single Window (NSW)

iv. Inland Revenue Information System (Iris)

Current initiatives

1. Creation of Tax Policy Unit within Ministry of Finance.

2. Identification and scrutiny of evasion by High Net worth Individuals.

3. Administrative measures to increase tax collection by identifying untaxed wealth overseas and by data matching to identify non-filers.

4. Practical steps taken to curb Offshore Tax Evasion (UK and UAE properties, Panama and Paradise Leaks, etc.) and continuous monitoring of such cases.

5. Plaza Mapping at Lahore, Karachi and Islamabad.

6. Launch of Device Identification, Registration and Blocking System (DIRBS) to control smuggling of mobile devices.

7. Introduction of Currency Declaration System and Advanced Passenger Information System at major airports of the country.

8. Discouraging imports of luxurious goods through additional Regulatory Duties (RDs).

9. Addressing under invoicing by signing MOU with China for exchange of pricing information.

10. Forensic audit in Sugar, Tobacco and Steel Industries to address leakages and tax evasion and in these industries

11. Implementation of Tobacco Track & Trace System.

12. Resolving pending litigation

13. Collection of pending arrears identified as collectable arrears.

14. Resolving 1.2 million automatically selected cases for audit U/s 214D.

These reforms will start paying dividends in shape of improved compliance, higher revenue growth and improvement in tax-GDP ratio. The tax revenues have increased significantly during last four fiscal years. The collection jumped from Rs. 1,946 billion in 2012-13 to Rs. 3,844 billion in FY 2017-18, registering an overall growth of 97.5 percent. Similarly, tax-GDP ratio of the country which was just 8.7 in 2012-13 jumped to 11.2 in FY 2017-18. With the help of these initiatives, FBR is moving towards a more efficient tax system; facilitating taxpayers, promoting investment and broadening the tax base in the years to come. It is envisioned that these resource mobilization efforts will result in further improvement of domestic tax revenues in coming years.

Government of Punjab

a. The Board of Revenue, Punjab revised the rates of Stamp Duty chargeable as adhesive stamps under the Schedule-I of the Stamp Act, 1899 in order to rationalize the rates in view of inflation over the years.

b. The operational experience gained by Punjab Revenue Authority during the preceding Financial Year necessitated the introduction of certain procedural and technical amendments in the Punjab Sales Tax on Services Act, 2012, intended for improving compliance of the law. The technical amendments cover issues of adding definitions of taxable services, delegating certain functions to the Commissioners, updating appeal related provisions, enhancing time of retention of record and recovery of short paid tax from 'five' to 'eight' years and providing direct statutory backing to existing rules relating to electronic monitoring of taxable services and enforcement actions to preclude litigation.

c. In order to plug compliance gaps arising out of the diversities of tax on services, the tariff interpretations and descriptions of a few taxable services have been modified to remove gaps and misapplication of the law. The overall objective is to broaden the tax base of Punjab Sales Tax on Services Act 2012, and maximize revenue generation in public interest.

d. The Excise, Taxation and Narcotics Control Department made amendments in the Punjab Finance Act 2016 in order to make recovery mechanism more efficient and to rationalize the rate of tax imposed on imported motor cars.

e. In order to provide relief, to the motor vehicle owners, amendments have been made in the Punjab Motor Vehicles Taxation Act, 1958.

<u>**Government of Sindh**</u>

i) Government of Sindh through effective and efficient financial management has succeeded to contain its budget deficit.

ii) The Debt Management Unit (DMU) is fully operational under Finance Department Sindh and is professionally involved in all debt related activities of Sindh Government.

iii) Revenue collection & expenditure are monitored on regular basis. Provincial receipts & expenditure are being reconciled with federal and other relevant entities regularly.

iv) Regular coordination is being maintained with Provincial revenue generating departments for improving own revenue collections.

v) Government of Sindh is following strict policy of austerity by placing ban on purchase of luxury items etc. to reduce the non-development expenditure.

vi) Budget Strategy Paper is prepared regularly and is presented every year before the Sindh Cabinet well before the announcement of the Budget.

vii) The Tax Retorm Unit (TRU), Sindh Tax Revenue Mobilization Plan (TRMP), Public Financial Action Plan and Public Management Reform Program are being implemented as fiscal reform measures.

viii) Government of Sindh has been quite successful in tapping the avenues of sales tax on services through the strategy of increasing the tax net. In order to effectively broaden the tax net, the Government of Sindh, phase-wise, reduced the standard rate of sales tax on services from 16% to 13%. These measures of the Government of Sindh have successfully repaid in the shape of increased revenue collections by Sindh Revenue Board (SRB) through active cooperation of the taxpayers, taxpayers' Chambers and Associations etc.

ix) Sindh Sales Tax Special Procedure (Withholding) Rules, 2011 have been replaced with a new set of Sindh Sales Tax Special Procedure (Withholding) Rules, 2014, which was notified in the light of experiences gained under the said 2011-Withholding Rules. This has resulted in proper monitoring of the Sindh sales tax, withheld by the service recipients, with resultant increase in revenues.

x) SRB systems, including tax payment and return-filing systems, have been made fully automated, avoiding physical contacts between taxpayers and tax collectors.

xi) For speedy recovery of the adjudged dues, End to End Recovery system has been developed by SRB for electronic/digital recording of the show cause notices, adjudication orders and assessment orders.

xii) Sindh Revenue Board (SRB), in consultation with the State Bank of Pakistan and the Commercial Banks, has introduced a system of online payment of Sindh Sales Tax on Services, directly from the Bank accounts of the taxpayers, instead of their visiting the treasury or NBP counter for such payments. This Alternative Delivery Channel is a big facilitation for the taxpayers and SRB is the first Tax Administration in Pakistan to have devised and innovated this system as facilitative measure for the taxpayers.

xiii) Sindh Sales Tax on certain Services has been rationalized to make business competitive and bring the rates of taxes in line with other provinces.

xiv) SRB Appellate Tribunal has been established by the Sindh Government and has been placed under the Sindh Law Department. The Appellate Tribunal brings transparency in the quasi-judicial system and also provides independent, speedy and judicious disposal of cases, resulting in speedy recovery of the adjudged dues.

xv) In order to facilitate taxpayers, Sindh Government/SRB has introduced e-hearing system for the appellants who are residents outside of Karachi. Such appellants can avail the e-hearing facility from Hyderabad or Sukkur and can plead their cases before e-Court (of Commissioner Appeals), SRB, Karachi.

xvi) Various Seminars, Workshops and Tax Forums have been held by the Sindh Revenue Board (SRB), in Karachi, Hyderabad and Sukkur, which were attended by representatives from FPCCI, Chambers of Commerce & Industry in Sindh, OICCI, Pakistan Business Council, ICAP, ICMA, and various Associations of Trade & Industry. Representatives from FBR, PRA and KPRA also attended the events. These events aimed at enhancing taxpayers' education and awareness about tax laws and their compliance levels. Eminent economists, World Bank officials, Media Chiefs, Sindh Finance Secretary, Sindh Finance Minister and the Honourable Chief Minister Sindh addressed the Tax Forums. These Tax Forums were very successful and provided opportunity for interaction between taxpayers and tax policy makers.

xvii) All transactions of land record are being carried out through new system of LARMIS.

xviii) Provincial valuation tables for Karachi, Hyderabad and Sukkur have been enhanced to bring at par with FBR valuation.

xix) Valuation tables for rest of the Province have been enhanced by 100%.

xx) In order to encourage recording of property transactions at fair market value, the concept of Floating Tax Rate has been introduced by the BOR Sindh, in connection with the property-related taxes - Stamp Duty, Registration Fee and Capital Value Tax. The Floating Tax Rate will be applicable, if the actual value of the transacted property is recorded over and above the Valuation Tables. However, in such a case, the rates of the applicable taxes will be reduced as per determined formula of the Floating Tax Rate. This measure will encourage general public to record actual values of their properties, in documents, without paying increased amount of taxes.

xxi) All Sub Registrar Offices of Board of Revenue Sindh have been made online. Computerized data entry of registries is being carried out and digitized. It is also accompanied by system of automated audit whereby the Face-Sheet showing essential details of the document, including chargeable tax, is generated which ensures proper calculation of tax.

xxii) To ensure transparency, free Online Calculator has been provided on www.sindhzameen.gos.pk, to facilitate registrant public in calculating stamp duty, registration fee and other taxes applicable on property registration.

xxiii) Government of Sindh is also working on Agriculture Income Tax to bring improvements in its collection and levy mechanism. A workable policy is being prepared with consultation of stakeholders.

xxiv) Stamp duty on Goods Declaration is being levied through automated Weboc System of PRAL which has plugged evasion and leakage of taxes.

xxv) Sindh Government is conducting a detailed on-ground digitized property survey of Sukkur District mainly with a view to increasing property tax revenue and for better land administration.

Government of Khyber Pakhtunkhwa

i. Streamlining the detailed object / Head Wise of Tax and Non-Tax receipts.

ii. Bifurcation of highly complexed head of accounts as per Federal Chart of Accounts issued by Controller General of Accounts (CGA), Islamabad.

iii. Separation of Receipts Head from one department to another in order to assess revenue collection performance.

iv. A comprehensive analysis containing hundred pages report of all the revenue collecting departments was generated so as to find out additional avenues of revenue generation.

v. Resultantly, targets for 2019-20 were set object wise for each department which were completely in line with their actual receipt.

Government of Balochistan

1. Government of Balochistan in the Finance Act, 2019 revised and enhanced various taxes as part of its strive to expand its revenue base.

2. Initiatives taken to bring Board of Revenue and Excise and Taxation Department under automation system.

3. Tax Policy and Reforms Unit has been set up aimed at assisting revenue generating departments to review its existing tax collection mechanism and suggesting reforms, tax policy formulation, implementation and monitoring.

4. Similarly, Debt Management Unit has been set up to assess debt's risks, coordinate with P&D Department in financial negotiations, operate debt management information system and present debt bulletin with international standards.

5. Balochistan Revenue Authority (BRA) is being strengthened.

6. Infrastructure Development Cess Act has been passed and collection has been started in the province.

7. Public Private Partnership (PPP) Act has been passed by GoB and a PPP unit has been set up in P&D Department aimed to provide job opportunities and strengthen revenue base.

5.3: Fiscal Discipline

5.3.1 Article 9(3) of said order provides that Federal and provincial governments would develop and enforce mechanism for maintaining fiscal discipline at the federal and provincial levels through legislative and administrative measures. In this regard, efforts of the Federal Government as well as Provincial Governments are reproduced as follows:-

Federal Government

The present government inherited fiscal deficit 6.5% of GDP in Financial Year 2018-19. The present government is taking following steps to reduce the fiscal deficit in Current Financial Year 2018-19:-

- All cases of Supplementary Grants/Technical Supplementary Grants are approved by the Federal Cabinet;
- There is a complete ban on purchase of all type of vehicles except operational vehicles of law enforcing agencies;
- Ban on creation of new posts;
- Entitlement of periodical, magazines, newspapers etc of entitled officers will remain restricted to only one;
- The delegation for foreign visits are restricted;
- All Principal Accounting Officers (PAOs), has been asked for savings 10% in their Budget 2018-19;
- Electricity Subsidy policy and power sector reforms are initiated; and
- Revenue collection & expenditure are being monitored on monthly basis.

Based on the above measures, the present government has been trying to restrict budget deficit. Although, Federal Board of Revenue (FBR)'s collections trend is not encouraging, any shortfall in collection would be compensated through reduction in avoidable expenditure.

Government of Punjab

1. Punjab Government followed strict austerity measures to reduce expenditure on purchase of durable goods i.e. air-conditioners, generators and vehicles. Purchase of expensive durable goods was subject to clearance of the High-Level Austerity Committee headed by the Finance Minister.

2. In order to enhance the business environment to make it more accessible for mass public, Government of the Punjab has embarked upon the agenda of implementing Ease of Doing Business Reforms to improve the sub-national ranking of key Doing Business Indicators that fall in the Provincial domain. The Planning & Development (P&D) Boards, in collaboration with the World Bank and multiple implementing agencies, has initiated targeted interventions, envisaged under the Ease of Doing Business Reform Agenda to enhance the Provincial business landscape.

   A key area of the Doing Business Reform is the ease of paying taxes. The Government has also taken lead on the agenda and signed a Tri-partite Agreement with the State Bank of Pakistan and 1-Link to launch a system of electronic payment of taxes and non-tax receipts through online as well as alternative delivery channels (ADCs) such as ATMs, Mobile Banking etc. Under this agreement both electronic and physical mediums in 27 commercial banks across Pakistan can be utilized by taxpayers to initiate a transaction under the bill payment system (BPS).

3. Finance Department, in collaboration with the Punjab Revenue Authority (PRA) has introduced the facility to pay Punjab Sales Tax on Services (PSTS) online through mobile and web applications.

4. To provide the fiscal space needed for improved service delivery, the Provincial Government's efforts have been multipronged where focus was not only on increasing Provincial Own Source Revenue (OSR), through a stronger resource mobilization effort, but also on expenditure rationalization.

Government of Sindh

Cash Monitoring: Govt. of Sindh tries its best to avoid the overdraft from the State Bank of Pakistan. The cash balance position of the Provincial Government with SBP is monitored on daily basis, and it is handled effectively through efficient financial management.

Government of Khyber Pakhtunkhwa

i). While considering the budget estimates 2018-19 the Provincial Cabinet approved certain guiding principles to curtail the recurring expenditure effective from 1st July 2018 **(Annex-II).**

ii). In order to maintain financial discipline and in time availability of funds, the Government of Khyber Pakhtunkhwa with the approval of competent authority devised a release policy for current and development expenditure **(Annex-III).**

iii). The cash balance of Khyber Paktunkhwa Account No. 1 maintained with State Bank of Pakistan remained in surplus over the period of the report.

Government of Balochistan

i. PEFA Assessment (Public Expenditure and Financial Accountability Assessment) has been completed and published.

ii. Public Financial Management Reforms Strategy has been developed and approved by the Provincial Cabinet.

iii. Efforts are in progress for payroll and pension verification through biometric system.

iv. Delegation of Financial Powers and Public Procurement Regularity Authority (PPRA) rules have been reviewed and updated in the context of improving efficiency and ensuring fiscal discipline in the province.

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Annex-I

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ISLAMABAD, MONDAY, MAY 10, 2010

PART I

Acts, Ordinances, President's Orders and Regulations

GOVERNMENT OF PAKISTAN

MINISTRY OF LAW, JUSTICE AND PARLIAMENTARY AFFAIRS

Islamabad, the 10th May, 2010

No. F. 2 (2)/2010-Pub.—The following President's Order Promulgated by the President is hereby published for general information:—

PRESIDENT'S ORDER No. 5 of 2010

AN

ORDER

to provide for distribution of revenues and certain grants

WHEREAS in pursuance of clause (1) of Article 160 of the Constitution of the Islamic Republic of Pakistan hereinafter referred to as the Constitution, the President, by the Finance Division's Notification No. S.R.O. 739(I)/2005 dated 21st July 2005, as modified by the said Division's Notification No. S.R.O. 693(I)/2009, dated 24th July 2009, appointed a National Finance Commission to make recommendations, among other matters, as to the distribution between the Federation and the Provinces of the net proceeds of certain taxes;

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AND WHEREAS the said Commission has also submitted its recommendations with regard to the said distribution;

NOW, THEREFORE, in pursuance of clauses (4) and (7) of Article 160 of the Constitution, the President is pleased to make the following Order:—

1. **Short title and commencement.**—(1) This Order may be called the Distribution of Revenues and Grants-in-Aid Order, 2010.

(2) It shall come into force on the first day of July, 2010.

2. **Definitions.**—In this Order, unless there is anything repugnant in the subject or context,—

(a) "net proceeds" means, in relation to any tax, duty or levy, the proceeds thereof reduced by the cost of collection as ascertained and certified by the Auditor-General of Pakistan; and

(b) "taxes on income" includes corporation tax but does not include taxes on income consisting of remuneration paid out of the Federal Consolidated Fund.

3. **Distribution of revenues.**—(1) The divisible pool taxes in each year shall consist of the following taxes levied and collected by the Federal Government in that year, namely:—

(a) taxes on income;

(b) wealth tax;

(c) capital value tax;

(d) taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed;

(e) export duties on cotton;

(f) customs-duties;

(g) federal excise duties excluding the excise duty on gas charged at well-head; and

(h) any other tax which may be levied by the Federal Government.

(2) One percent of the net proceeds of divisible pool taxes shall be assigned to Government of Khyber Pakhtunkhwa to meet the expenses on war on terror.

(3) After deducting the amount as prescribed in clause (2), of the balance amount of the net proceeds of divisible pool taxes, fifty-six percent shall be assigned to provinces during the financial year 2010-11 and fifty-seven and half percent from the financial year 2011-12 onwards. The share of the Federal Government in the net proceeds of divisible pool shall be forty-four percent during the financial year 2010-11 and forty-two and half percent from the financial year 2011-12 onwards.

4. **Allocation of shares to the Provincial Governments.**—(1) The Province-wise ratios given in clause (2) are based on multiple indicators. The indicators and their respective weights as agreed upon are:—

(a)	Population	82.0%
(b)	Poverty or backwardness	10.3%
(c)	Revenue collection or generation	5.0%
(d)	Inverse population density	2.7%

(2) The sum assigned to the Provincial Governments under Article 3 shall be distributed amongst the Provinces on the basis of the percentage specified against each:—

(a)	Balochistan	9.09%
(b)	Khyber Pakhtunkhwa	14.62%
(c)	Punjab	51.74%
(d)	Sindh	24.55%
	Total:	100.00%

(3) The Federal Government shall guarantee that Balochistan province shall receive the projected sum of eighty-three billion rupees from the provincial share in the net proceeds of divisible pool taxes in the first year of the Award. Any shortfall in this amount-shall be made up by the Federal Government from its own resources. This arrangement for Balochistan shall remain protected throughout the remaining four years of the Award based on annual budgetary projections.

5. **Payment of net proceeds of royalty on crude oil.**—Each of the provinces shall be paid in each financial year as a share in the net proceeds of the

total royalties on crude oil an amount which bears to the total net proceeds the same proportion as the production of crude oil in the Province in that year bears to the total production of crude oil.

6. **Payment of net proceeds of development surcharge on natural gas to the Provinces.**—(1) Each of the Provinces shall be paid in each financial year as a share in the net proceeds to be worked out based on average rate per MMBTU of the respective province. The average rate per MMBTU shall be derived by notionally clubbing both the royalty on natural gas and development surcharge on Gas. Royalty on natural gas shall be distributed in accordance with clause (1) of Article 161 of the Constitution whereas the development surcharge on natural gas would be distributed by making adjustments based on this average rate.

(2) The development surcharge on natural gas for Balochistan with effect from 1st July, 2002, shall be re-worked out hypothetically on the basis of the formula given in clause (1) and the amount, subject to maximum of ten billion rupees, shall be paid in five years in five equal instalments by the Federal Government as grants to be charged on the Federal Consolidated Fund.

7. **Grants-in-Aid to the Provinces.**—There shall be charged upon the Federal Consolidated Fund each year, as grants-in-aid of the revenues of the province of Sindh an amount equivalent to 0.66% of the provincial share in the net proceeds of divisible pool as a compensation for the losses on account of abolition of octroi and zilla tax.

8. **Sales tax on services.**—NFC recognizes that sales tax on services is a Provincial subject under the Constitution of the Islamic Republic of Pakistan, and may be collected by respective Provinces, if they so desired.

9. **Miscellaneous.**—(1) NFC also recommended increase in the rate of excise duty on natural gas to Rs.10.0 per MMBTU. Federal Government may initiate necessary legislation accordingly.

(2) The NFC recommended that the Federal Government and Provincial Governments should streamline their tax collection systems to reduce leakages and increase their revenues through efforts to improve taxation in order to achieve a 15% tax to GDP ratio by the terminal year *i.e.* 2014-15. Provinces would initiate steps to effectively tax the agriculture and real estate sectors. Federal Government and Provincial Government may take necessary administrative and legislative steps accordingly.

(3) Federal Government and Provincial Governments would develop and enforce mechanism for maintaining fiscal discipline at the Federal and Provincial levels through legislative and administrative measures.

(4) The Federal Government may assist the Provinces through specific grants in times of unforeseen calamities.

(5) The meetings of the NFC may be convened regularly on a quarterly basis to monitor implementation of the award in letter and spirit.

10. **Repeal.**—The Distribution of Revenues and Grants-in-Aid Order, 1997 (P. O. No.1 of 1997), and the Distribution of Revenues and Grants-in-Aid, Order, 2010 (P. O. 4 of 2010) are hereby repealed,

ASIF ALI ZARDARI,
President.

SYED SULTAN AHMED,
Senior Joint Secretary.

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Annex-II

ECONOMY/AUSTERITY MEASURES (2018-19)

A. There shall be complete ban on:

   a. Creation of posts except posts required for completed Developmental Projects.

   b. Treatment abroad on Provincial Government's expense.

   c. Purchase of new vehicles except Ambulances, Earth moving machinery, Fire Trucks, Tractors, Non-Luxury Police vehicles, Single Cab Pickup 4x4 and 4x2, 3 Door Jeeps, Trucks, Buses, Prisoners Vans, Motorcycles, Water Bowser Trucks, Recovery/ Rescue vehicles, Rescue/Life Saving boats.

   d. Participation in workshops/seminars and training abroad involving provincial funds.

   e. Holding Seminars and Workshops in Five Star Hotels involving Provincial funds.

   f. Up-gradation of posts, all type of allowances and salary raise till June 2019.

B. All Administrative Secretaries and Heads of Autonomous/Semi-Autonomous Bodies, being Principal Accounting Officers, shall conduct meetings of Departmental Accounts Committee regularly under intimation to Finance Department so as to ensure internal audit of their respective Departments/ Organizations.

C. To achieve the budgeted Provincial Revenue targets, Finance Department shall convene monthly meetings to be attended by Administrative Secretaries of the concerned Departments.

D. No appointment of contingent paid staff shall be made during the course of the financial year 2018-19.

E. No appointment shall be made against leave vacancies without prior approval of Finance Department.

F. No appointment will be made against vacant posts (except Class-IV) without obtaining NOC from the concerned Surplus Pool.

G. Principal Accounting Officers will make sure that no appointment is made against a vacant post of dying cadre and will also initiate disciplinary action, if any such appointments have been made previously.

H. Expenditure shall be restricted to the funds released and the Administrative Departments shall not incur expenditure in anticipation of additional or supplementary grants.

I. No developmental scheme involving creation of posts (Revenue Component) will be considered without prior clearance of Finance Department.

J. No department shall retain receipts in Bank Accounts. The Departments must remit all Receipts to Provincial Account forthwith except where Departments/ facilities have been specifically permitted under some Statute/ Act.

K. No funds will be utilized on account of annual and special repair of such Roads & Buildings which have been repaired / rehabilitated during last three years except flood and earthquake affected Government infrastructure.

L. The advertisement charges allocated under Current Revenue Expenditure shall be utilized on current side only. As regards expenditure on developmental side, necessary provision will be made in the PC-I(s)/Costs Estimate(s) of the concerned scheme(s) whereas the devolved Department's expenditure on this account shall be met out of Account-IV of the District concerned.

ANNEX-III

RELEASE POLICY

Besides, the Finance Department has circulated Release Policy for FY 2018-19 in respect of Provincial and Local Government, containing the following important provisions:

A) DEVELOPMENT EXPENDITURE:

TYPE OF SCHEMES	FUNDS RELEASE METHODOLOGY
1. Ongoing approved schemes	i) 50% of the allocated funds will be released to ongoing schemes of a sector progressively at the start of the financial year. ii) Out of released 50% funds; the Administrative Department will ensure adequate releases to the on-going schemes, due for completion and to the schemes pertaining to snow bound areas (either due for completion or not) through intra sectoral re-appropriations. iii) Subsequent releases to each sector will be made on provision of Utilization Certificate of at least 75% of already released funds or justification to be provided by Administrative Department for non-utilization / low utilization on case to case basis.
2. New approved schemes	25% of the allocated funds will be released to new schemes of each sector on production of Administrative Approval (AA). Remaining allocations for such schemes will be released as and when demanded by the Administrative Department on production of utilization report and on case to case basis.

3.	Schemes with 'R' status in ADP 2018-19	Funds will be released to the schemes of 'R' status in ADP 2018-19 on the basis of notified Revised Administrative Approval.

4. District wise complete breakup of the umbrella schemes shall be provided by the Department within one week after release of funds to enable Finance Department to punch it in SAP system.

5. No release shall be made in the name of individuals with respect to Umbrella schemes.

6. 75% release will be made for procurement of medicines under schemes of Health Department on the request of the Department. Subsequent 25% release will also be made as and when required by the Health Department.

7. Development funds to schemes having designated accounts will be released subject to production of utilization report and bank statement of their accounts.

8. Intra-Sectoral re-appropriation approved by Administrative Departments to development schemes shall be punched in SAP system by Administrative Departments themselves and not by the Finance Department.

9. No re-appropriation shall be made against those schemes wherefrom funds are re-appropriated to other schemes, during current financial year, unless otherwise justified by the P&D Department.

10. Proposed schemes against 21 billion from arrears of NHP will be subject to the receipts from Federal Government

(B) CURRENT EXPENDITURE - PROVINCIAL

S#	OBJECTS	FUNDS TO BE RELEASED
1.	• Salary* *(except Honoraria which shall be released on case to case basis)*	100%
2.	• Electricity • Sui Gas Charges • Advertisement Charges (Current side only) • Financial Assistance to the families of Government servants who die while in service	100%
3.	Rest/Others	75%
4.	Purchase of Physical Assets	75%
5.	Maintenance & Repair **	75%
6.	Wheat Subsidy	Release on the request of Food Department
7.	Funds at the disposal of Finance Department	Release on case to case basis through re-appropriation as per Guidelines contained in Finance Department's circular letter No. BO.I/FD/5-17/ 2014-15 dated 12/06/2015
8.	S.N.E (Fresh)	Authentication of Audit Copy by the Finance Department

NOTE:

1. Medical Charges*:- The funds released under object A01274-Medical Charges shall be utilized by the concerned sanctioning authorities only upto the limit of medical re-imbursement claims i.e Rs.30,000/- where verification / authentication by Director

General, Health Services, Khyber Pakhtunkhwa is not required under the prevailing rules/policy instructions. The incurrence of expenditure against the remaining claims shall be authorized by Finance Department on case to case basis as usual.

2. Repair & Maintenance **:- The funds allocated for civil works, maintenance and repair of Roads, Highways and Buildings, will be released on case to case basis on the approval of competent forum and issuance of Administrative Approval.

3. Release of Withheld Budget: - The withheld budget under Current Expenditure (Provincial) will be released in 3rd quarter of current financial year subject to availability of financial resources. The individual demands for release of balance funds shall be examined at the level of concerned Sections and decided by the competent authority based on justification(s) provided by the Administrative Department concerned."

(C) (DEVELOPMENT & CURRENT EXPENDITURE - LOCAL GOVERNMENTS

i. DEVELOPMENT EXPENDITURE (LOCAL GOVERNMENT)

Development share of District Development Funds shall be transferred to respective Local Governments on quarterly installment basis, which have not been provided development funds during financial year 2018-19. Such Districts, TMAs and VCs/NCs which have been provided development budget during last financial year (2017-18), shall be facilitated with funds subject to utilization of 60% development funds of last financial year.

ii. CURRENT EXPENDITURE(LOCAL GOVERNMENT)

SR.#	GRANT	FUNDS TO BE TRANSFERRED
1.	Salary	On monthly instalment basis subject to adjustment of balance available from previous month.
2.	Non-salary	On quarterly instalment basis subject to availability of financial resources.

(D). GRANT TO LOCAL COUNCILS

SR.#	GRANT	FUNDS TO BE TRANSFERRED
1.	TMA	On monthly instalment basis subject to availability of financial resources.
2.	District Councils	20% share of the Grant on monthly instalment basis of the total allocation which shall be released on need basis subject to availability of financial resources.
3.	Grant to VCs/NCs	80% share of the Grant on monthly instalment basis subject to availability of financial resources.
4.	Cantt: Board	On monthly instalment basis subject to availability of financial resources.

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