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

(July — December, 2020)

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, 2020 was approved by the Federal and Provincial Finance Ministers for laying before both the Houses of the Parliament and Provincial Assemblies.

6. The bi-annual Report contains total FBR Collections during July-December, 2020, details of Non Divisible Pool Components, Vertical Distribution of share between Federal and Provincial Governments, Horizontal distribution of shares between the Provinces and detail of Grants-in-Aid as well as Straight Transfers to the Provinces.

7. The report also includes detail of efforts by Federal and Provincial Governments to streamline their tax collections system to reduce leakages and increase their revenues as well as efforts undertaken for maintaining fiscal discipline at Federal and Provincial level during the reported period.

Yusuf Khan
Additional Secretary (In charge)
Finance Division

Islamabad, the 26th July, 2021

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EXECUTIVE SUMMARY

This 1st Biannual Monitoring Report on implementation of 7th NFC Award covers the period from July to December, 2020 of Financial Year 2020-21. Total tax collection, as reported by FBR, remained Rs.2,212.356 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.2,020.941 billion. The Provincial share comes to Rs.1,162.041 billion, leaving a balance of Rs.858.900 billion for Federal Government. The Provincial share has been distributed as: Rs.601.240 billion to Punjab (51.74%), Rs.285.281 billion to Sindh (24.55%), Rs.169.890 billion to Khyber Pakhtunkhwa (14.62%). and Rs.105.630 billion to Balochistan (9.09%). Khyber Pakhtunkhwa received Rs. 20.414 billion on account of War on Terror.

During the period July to December, 2020, Rs. 13.486 billion, Rs. 24.499 billion and Rs. 17.057 billion were collected on account of Royalty on Crude Oil, Gas Development Surcharge & Royalty on Natural Gas respectively which were transferred to the Provinces. Similarly, an amount of Rs. 4.434 billion has been transferred to provinces on account of excise duty on Natural Gas during the reported 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). Accordingly, an amount of Rs.7.669 billion was released to Government of Sindh on this account.

INTRODUCTION

1.1 The recommendations of the 7th NFC (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 and 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, 2020. Articles 1 and 2 of the President's Order consist of title and definition and therefore no action is warranted on these Articles.

DIVISION OF DIVISIBLE POOL TAXES

Articles 1 and 2 consist of title and definition of the President's Order "Distribution of Revenues and Grants-in-Aid Order, 2010 (Award)"and therefore, no action is required on these Articles.

Articles 3 and 4 of the President's Order regulate the distribution of divisible pool taxes between the Federal and Provincial Governments vertically and amongst the four Provinces horizontally.

2.1: FBR Tax Receipts

2.1.1 Federal Board of Revenues (FBR) reported the following tax collection for first half of the Financial Year 2020-21:

TABLE-I: Total FBR Collection (July – December,2020)

(Rs. in billion)

A	Provisional collection reported on fortnightly basis during July - December, 2020.	2108.426
B	Arrears worked out on receipt of final reconciled collection for F.Y. 2019-20 reported and released in F.Y. 2020-21	103.930
C	**Total Collection reported during the period of report (A+B)**	**2,212.356**

2.1.2 The releases to the Provinces during the 1st half of FY 2020-21 were made on the basis of FBR collection amounting to Rs.2,212.356 billion. During the corresponding period of last financial year (FY 2019-20), the FBR collection was Rs.2,190.486 billion (inclusive of arrears of previous year).

2.2: Distribution of Divisible Pool Taxes

2.2.1 Article 3 (1) of the President's Order explains components 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.2,070.234 billion against total tax receipts of Rs.2,212.356 billion. A detailed breakup in this regard is given as follows:

TABLE-II: Calculation of Gross Divisible Pool Tax

(Rs. in billion)

	1st half of FY 2020-21
Total Collection FBR Receipts	**2,212.356**
Less Non-Divisible Pool Components	**142.122**
WWF	15.102
GST on Services (ICT)	19.083
Excise Duty on Natural Gas	4.524
Exp. Development Surcharge	3.573
Refund through Supplementary Grant	99.840
Gross Divisible Pool Tax	**2,070.234**

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. The entire proceeds are then distributed between the Federation and Provinces in accordance with the provisions of Articles 3 and 4 of the President's Order. The details of vertical distribution are as follows:

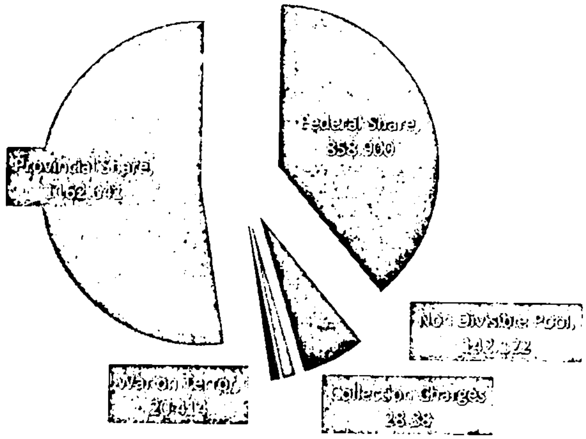
Table-III: Vertical Distribution of Share (July-December, 2020)

(Rs. in billion)

Divisible Pool Taxes	FBR Collection Reported	Collection Charges (1%)	Net Divisible Pool Taxes	1% set aside for WoT for KPK	Balance Net Div. Pool	Provincial Share (57.5%)
Divisible Pool Taxes	**2,070.234**	*** 28.880**	**2,041.353**	**20.414**	**2,020.941**	**1,162.041**
Income Tax	817.730	16.355	801.375	8.014	793.362	456.183
Capital Value Tax	0.470	0.005	0.465	0.005	0.462	0.265
Sales Tax (Excl. GST on Services)	826.462	8.265	818.197	8.182	810.015	465.759
Federal Excise(Excl. ED on NG)	115.704	1.157	114.547	1.145	113.401	65.206
Customs(Excl. Export Dev. Surcharge)	309.867	3.099	306.768	3.068	303.701	174.628

* Includes additional deduction of 1% on account of Income Tax Paid out of the Federal Consolidated Fund, being not part of the divisible pool taxes.

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



2.4: Horizontal Distribution

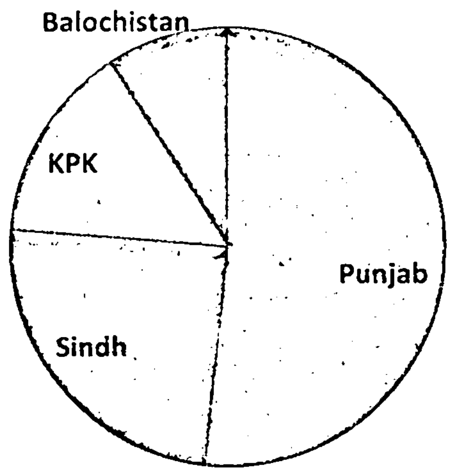
2.4.1 Article 4(2) of the President's Order provides percentage share of each Province in the Provincial share, out of divisible pool taxes. Provincial share against their percentages for the period from July-December, 2020 has been worked out as follows:-

Table-IV: Provincial Share out of Divisible Pool (July-December, 2020)

(Rs. in billion)

	Total (100%)	Punjab (51.74%)	Sindh (24.55%)	Khyber Pakhtunkhwa (14.62%)	Balochistan (9.09%)
Divisible Pool Taxes	**1,162.041**	**601.240**	**285.281**	**169.890**	**105.630**
Income Tax	**456.183**	236.029	111.993	66.694	41.467
Capital Value Tax	**0.265**	0.137	0.065	0.039	0.024
Sales Tax(Excl.GST on Services)	**465.759**	240.984	114.344	68.094	42.337
Federal Excise(Excl. ED on NG)	**65.206**	33.738	16.008	9.533	5.927
Customs(Excl. Export Dev. Surcharge)	**174.628**	90.353	42.871	25.531	15.874

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. 20.414 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, 2020
Share in the Divisible Pool (14.62%)	169.890
1% War on Terror	20.414
Total:-	**190.304**

2.5.2 Similarly, Clause (3) of Article 4 of the Order also guarantees that Balochistan Province shall receive its share in the net proceeds of divisible pool taxes as per annual budgetary projections, 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.20.202 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, 2020
Share in the Divisible Pool (9.09%)	105.630
Additionality provided by Federal Government	20.202
Total:-	**125.832**

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, 2020, were distributed amongst the provinces in accordance with the said provision, which are as follows:

Table-VII: Royalty on Crude Oil

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
(July – December, 2020)	1.704	4.335	7.447	0	**13.486**

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 – December, 2020)

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.869	16.035	3.282	4.313	**24.500**
Gas Dev. Surcharge	1.159	11.429	2.051	2.418	**17.057**

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.4.434 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, 2020	0.160	2.829	0.666	0.779	**4.434**

3.3.2 The figures reflected in the above table represent actual transfers and have 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.1,162.041 billion. Accordingly, the said grant-in-aid was worked out to be Rs.7.669 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

	B.E. 2020-21	Receipt up to December, 2020	(%) over B.E.
Provinces	**289.350**	**140.716**	**48.63%**
Punjab	121.000	72.616	**60.00%**
Sindh	135.000	54.702	**40.52%**
Khyber Pakhtunkhwa	19.850	9.930	**50.03%**
Balochistan	13.500	3.468	**25.69%**

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) provides 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.

5.2.2 Steps taken for Streamlining Tax Collection by Federal and Provincial Governments are explained in the following paragraphs.

Federal Government

MAJOR INITIATIVES TAKEN BY FBR

The Government of Pakistan is trying hard to enhance its tax revenues through appropriate policies and measures. In this regard, the Government of Pakistan is striving to enhance its tax revenues. The Government has introduced various reforms to make FBR a modern and efficient organization for optimization of tax revenues while promoting taxpayer friendly environment in the country. Major reform measures introduced in recent years and to be introduced in coming years are as follows:

A. AUTOMATION OF BUSINESS PROCESSES

- For simplification/ automation of registration of sales tax and income tax, a mobile application has been launched by FBR for online registration. However, biometric verification has been outsourced to NADRA in order to avoid any contact between tax collector and tax payer.

- Another mobile application "Tax Asaan" has also been launched which caters for filing of simple returns.

B. INCOME TAX ENFORCEMENT MEASURES

I. Broadening of Tax Base (BTB) Initiatives

- Data has been obtained from DISCOs and Gas Companies for broadening of tax base
  - Data of more than 3.5 million industrial and commercial users has been gathered
  - Informal letters have been issued to all such consumers nudging them for registration
  - In the first phase, notices to industrial consumers have been issued for registration
- In order to develop 360 degree view of tax payers, data sources like banks, vehicles and real estate transactions have been captured and a **Data Bank has been** developed.

C. REGISTRATION OF PERSONS FOR SALES TAX

- Industrial and commercial data of DISCOs has been obtained which is being utilized for registration of those traders who have obtained commercial or industrial connections but are not registered for sales tax.

D. SALES TAX (ENFORCEMENT MEASURES)

I. Point of Sales (POS)

- Mobile Application for customers to get cash back on Sales Tax Invoices
- Restaurants Invoice Monitoring System (RIMS), which will now to be enforced on retail sectors

II. Track & Trace System for Specified Goods (i.e., Tobacco, Cement, Sugar, Beverages and Fertilizers)

III. Joint anti-smuggling field intelligence exercise

- Member IR-Operations and Member Customs Operation have formulated a joint strategy
- Detailed working plan shared with Chief Commissioners/Collectors

OTHER INITIATIVES:

1. Identifying and checking evasion by high net worth individuals
2. Plaza Mapping at Lahore, Karachi and Islamabad
3. Launch of Device Identification, Registration and Blocking System (DIRBS) to control smuggling of mobile devices
4. Discouraging imports of luxurious goods through additional Regulatory Duties (RDs)
5. Forensic audit in sugar, tobacco and steel Industries to address leakages and tax evasion in these industries

CUSTOMS IMPLEMENTATION PLAN:

1. More contribution / collection through realizing stuck-up revenue via administrative measures like auctions, recovery, litigation disposal, etc.
2. Enhance effectiveness of the Risk Management Process/ Establishment of National Targeting Centre to prevent loss of revenue through mis-declarations in values, quantities, & description
3. Strengthening of Post Clearance Audit Organization and Function to ensure that consignments cleared through Green Channel are scrutinized and possible evasions/short payments are recovered
4. Web Based One Customs (WeBOC) System of Clearance
5. EDI – Electronic Data Interchange
6. National Single Window (NSW)

WAY FORWARD

In addition to the aforementioned steps / initiatives, the Government has also launched a five year reform program with the assistance of the World Bank which includes wide-ranging reforms including that of automation, policy and administrative measures:

- Transformation of Business Model
- Organizational Capacity Building by HR System Improvement
- Simplification of laws and procedures
- Taxpayer facilitation through behavioral change.

Government of Punjab

1. Fiscal Operations during CFY have been heavily influenced by the situation that has unfolded post COVID-19. Despite grave fiscal challenges to the Government exchequer in revenue collection, Government of Punjab continued to provide relief by reduction of stamp duty as a measure to promote growth in the construction industry. Further, upon insertion of definition of Urban Area in the Stamp Act, 1899 through Punjab Finance Act, 2017 as an area developed by a development authority, housing authority, statutory body, cooperative housing society or a real estate company or developer, the existing clauses of Article 63-A (i) and (ii) were omitted from Schedule I of the Stamp Act, 1899. This led to an increased and uniform application of rate of stamp duty.

2. Government of Punjab has made efforts to strike a balance between provision of relief and improving revenue generation and fiscal space for the Province. In order to align taxation with market rates, discount of 10% in property tax for maintenance was proposed. For payments through E-Pay System, a discount of 5% of the tax being paid on account of Urban Immoveable Property Tax & Motor Vehicle Tax has been introduced. This aims promote electronic payments of taxes and to increase overall revenue in a situation where mostly people are expected to be home bound. Whereas, rate of Entertainment Duty on cinemas has been decreased to 5% to revive the sinking industry. Similarly, relief in payment of property tax and motor vehicle tax under the Punjab Urban Immovable Property Tax Act, 1958 and the Punjab Motor Vehicles Taxation Act 1958 has also been given by extending the rebate periods.

3. Based on operational experience of PRA during the last fiscal year, certain amendments were brought to further streamline the procedures under Punjab Sales Tax on Services Act, 2012 and enhance the facilitation for the taxpayers. Apart from certain changes in penalties, all changes were taken to facilitate businesses during the prevalent COVID-19 situation, to encourage further documentation of economy and voluntary tax compliance without resorting to coercive measures. Further, electronic invoicing initiatives were extended to maximum number of service sectors and rates were reduced for restaurant sector/beauty parlours on transactions conducted through debit/credit card. The rates were also reduced for the COVID-19 hit sectors such as hotels, caterers, marriage halls etc. Moreover, in order to promote the use of Information Technology and to support technology-based entrepreneurship, tax rate for this sector was also reduced to 5%.

Government of Sindh

i. The IT Wing has been strengthened and most of the core functions of Sindh Revenue Board (SRB) in Tax Operations are now technologically supported i.e. Adjudication Management System (AMS), Business Intelligence (BI);

ii. Enterprise Resource Planning (ERP) system has been implemented in SRB for integration of functions of core business processes like finance, HR management in a single system;

iii. For ease of doing business, SRB has signed a Memorandum of Understanding (MoU) with FBR and other Provincial Authorities in relation to the development of Single Portal/Single Return;

iv. SRB is providing full support and cooperation to National Tax Council in its endeavor to harmonize the various sales taxes for the purpose of clarity, non-ambiguity and facilitation & Ease of Doing Business (EODB);

v. Land Administration and Revenue Management Information System (LARMIS-1) is 100% complete; its objective was to scan, archive and digitize land records;

vi. LARMIS-2 is being undertaken as a follow up of LARMIS-1 to digitize and integrate land records, maps and registries for a holistic view of the property market, better documentation and effective taxation of the real estate sector;

vii. BoR will soon launch e-Stamping program which is expected to reduce incidents of fake stamps and under-assessments which often lead to significant revenue loss. It will help to capture revenue that goes undocumented, unchecked and evaded;

viii. BoR is in process of upgrading its online programs which will enable title verification, e-assessments and e-payment of taxes;

ix. A system of Online Tax Collection where the public can pay Motor Vehicle Tax through credit cards, ATM, Easypaisa/Jazz cash has been started from October, 2020 in association with NBP and 1Link e-payment solution;

x. Excise, Taxation & Narcotics Control Department has initiated the process of hiring courier services to ensure effective delivery of maximum challans to general public;

xi. Excise, Taxation & Narcotics Control Department is in the final stages of signing a "Bilateral Agreement for data sharing with Federal Board of Revenue".

Government of Khyber Pakhtunkhwa

i. The Government of Khyber Pakhtunkhwa implemented recession based economic policies so as to revive the economy to encourage economic operations and made a concerted effort to enhance its own receipts for the Fiscal Year 2020-21.

ii. For revival of the economy, several taxes have been eliminated/ exempted and inspite of that fact, the provincial taxes and non-taxes departments have shown good progress and improved revenue generation by achieving 97% of the Mid-Year Target (116% by the Tax Departments and 72% by Non-Tax Departments) for July- December 2020 (F.Y 2020-21).

iii. Despite major economic setback and full exemptions of taxes on various sectors, the departments managed to grow and demonstrated enhanced compliance rate. The collections for July-December 2020 (F.Y 2020-21) went up to Rs. 23,923.621 Million.

iv. Despite the economic decline due to Covid-19 pandemic, the ratio of General Sales Tax/ collection for December 2020 (F.Y 2020-21) went up to Rs.9,930.829 Million, with a growth of 21.64% over the previous year.

v. The departments successfully managed to expand revenue and receipts of the Province through effective strategies in the era of Covid-19 pandemic.

Government of Balochistan

a) Finance Department, Government of Balochistan (GOB) has taken another initiative for automating the collection of its sundry receipts including both tax and non tax receipts. This automation is done through development of alternate delivery channels (ADC) E-Payment system. The E-Payment ADC system will bring huge efficiencies by ensuring same day settlement, generating paperless e-scrolls for the Treasury and Computerized Payment Receipts (e-CPRs) for taxpayers. This system will benefit the taxpayers in paying Government of Balochistan different taxes/duties and other receipts through internet banking, mobile banking, 15,000 plus ATMs, and through conventional approach i.e; Over the Counter (OTC) facility around 16,000 branches of all commercial banks across the country instead of a single commercial bank i.e; NBP. To undertake the aforementioned initiative, Finance Department, Government of Balochistan has entered into a tripartite agreement with the State Bank of Pakistan (SBP) and 1-Link (Pvt) Limited.

b) Further, Finance Department, Government of Balochistan, has also streamlined the law pertaining to Cess, which is levied upon goods, transported by roads using infrastructure of the Balochistan Province, which is rendered as services by it. This Cess is charged once the goods enter into and leave the Province from or for outside the country through rail or roads or air or sea. The title of this enactment/statute is "Balochistan Development and Maintenance of Infrastructure Cess Act, 2021".

c) Finance Department, in collaboration with Excise Department, Government of Balochistan, is currently working on automating different taxes of the Provincial domain being administered by Excise and Taxation Department. In the first phase, taxes such as Urban Immovable Property Tax, Stamp Duty and Professional Tax will be automated.

d) Considering the business growth in real-estate sector, Capital value Tax (CVT) on immovable property is also one of the major Provincial taxes. To derive more economic benefits from it the Government of Balochistan has drafted a new bill with a title of

"Balochistan Capital Value Tax on Immovable Property, 2020". In this new law/bill, all the necessary areas of any tax statute have been addressed. Such areas may include, but not limited to, registration of taxpayers, tax assessment basis, taxpayer's grievances redress mechanism, audit and other areas etc.

e) Similarly, with the purpose .to increase tax receipts from the collections of Electricity duty and repeal the obsolete provisions relating to electricity duty in Balochistan Finance Act, 1964 ,Government of Balochistan has also drafted a new bill titled "Balochistan Electricity Duty, 2020".This bill is also drafted on similar grounds as afore-stated in case of CVT.

5.3: Fiscal Discipline

5.3.1 Article 9(3) of the said Order provides that Federal and Provincial Government 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 Governments as well as Provincial Government are reproduced as follows:-

<u>Steps taken by Federal and Provincial Government for Fiscal Discipline</u>

<u>Federal Government</u>

a) At Federal level, Public Finance Management Act, 2019 has been promulgated with a view to strengthen management of public finances to improve definition and implementation of fiscal policy for better macroeconomic management and clarify institutional responsibilities related to financial management, and strengthen budgetary management. The Provincial Governments may enact their respective public financial management laws accordingly. Regarding fiscal discipline at Federal and Provincial levels, both levels of Government may work in close coordination to optimize revenue collection and rationalize their expenditures to attain the desired levels of fiscal performance. Especially, in the event of less revenue collection by FBR and resultant less provincial share in divisible pool taxes, the Provincial Governments may work out a strategy to accordingly reduce their budgetary outlays for having reasonable level of surplus at the end of the financial year.

b) During the 1st half of CFY 2020-21, the overall/consolidated fiscal deficit has been contained to 2.5% of GDP as against 2.3% of GDP for the same period of last Financial Year 2019-20. For restricting the fiscal deficit during the CFY 2020-21 at 7.0% of GDP, following steps are being taken by the Federal Government: -

i. The Federal Government has improved its financial management through effective budget management, efficient cash management including Treasury Single Account (TSA), and effective management of development projects and assets, reporting, etc..

ii. Federal Government has adopted a policy of discouraging Supplementary Grants. In exceptional cases especially for COVID-19 related expenditures and subsidy related payments, supplementary grants are allowed only with the approval of ECC and Cabinet.

iii. No Expenditure, in any head of account, shall be incurred over & above the limit imposed by the Finance Division;

iv. Complete ban on purchase of all type of vehicles (excluding motorcycles) both for current as well as development expenditure;

v. Ban on creation of new posts except those required for development projects and approved by the competent authority;

vi. Entitlement of periodicals, magazines, newspapers etc of entitled officers is restricted to only one;

vii. All Principal Accounting Officers have been asked to ensure rationalization of utility consumption, purchase of assets and repair and maintenance. All other operational expenditures shall be kept at bare minimum level while remaining within the budgetary allocation for the financial year.

3. Provincial Governments are also advised to promulgate Public Finance Management Act to enforce fiscal discipline at their end. They may also follow the austerity measures adopted by the Federal Government.

Govt of Punjab

1. **Performance of Own Source Revenue (OSR):** Despite COVID-19 relief, satisfactory growth in OSR has been observed during this period. An amount of Rs.119.81 billion has been collected up to December, 2020 as provincial tax receipts, with a growth rate of 15 % compared to the same period of Last Financial Year (LFY). Further, an amount of Rs.44.9 billion has been collected as provincial non-tax receipts during the same period. The Government was able to achieve this without levying any major taxes or increasing the tax rates.

2. **Austerity Measures:** Punjab Government continued to follow 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.

3. **Ease of Paying Taxes:** E-pay Punjab, the first ever Government Payment aggregator in Pakistan for Public to Government (P2G) & Business to Government (B2G) payments, has increased digital transactions of Own Source Revenue drastically and collected Rs.17 Billion plus from 3.5 Million plus transactions till December 2020 in CFY. A total of 9 departments and 20 taxes have been digitized with seamless and convenient online payment methods. During this time, the newly added levies in FY 2020-21 were Vehicle Fitness Certificate, e-Auction and PEPRIS.

4. **Supplementary Grant:** All administrative departments were required to remain within budgetary allocations to minimize the incidence of supplementary grants. Government of Punjab has worked hard in rationalizing the demands of additional funds by the Administrative Departments resulting in savings of billions in Current Financial Year (CFY). Furthermore, the requests for supplementary grants, if unavoidable, were placed before Provincial Cabinet/Standing Committee of the Cabinet on Finance & Development (SCCFD) for consideration. In this regard, the Government of Punjab has imposed hard budget constraints to check non-essential and non-budgetary expenditure through various course correction policies.

Government of Sindh

Cash Monitoring: The cash balance position of the Provincial Government with SBP is monitored on daily basis, and handled effectively through efficient financial management.

Government of Khyber Pakhtunkhwa

i. While considering the budget estimates 2020-21, the Provincial Cabinet approved certain guiding principles to curtail the recurring expenditure effective from 1st July 2020 **(Annex-II).**

ii. In order to maintain financial discipline and timely 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).**

Government of Balochistan

a) Government of Balochistan with a vision to empower Districts Accounts Offices in the context of enactment of Balochistan Public Finance Management (PFM) Act, 2020 held an extensive training to extend the working capabilities of District Accounts Offices in performing various fiscal operations at the district level for facilitation of general public at door-step.

Conclusion

As this report has shown, resources were shared during the period under consideration in accordance with the provisions of the 7th NFC Award, which was given legal cover through Distribution of Revenues and Grants in Aid Order, 2010 (President's Order No.5 of 2010). Furthermore, the Federal and the Provincial Governments are making efforts to enhance revenue generation. However, the Covid-19 pandemic has hampered the impact of these measures. Nevertheless, adoption of austerity measures to curtail unnecessary expenditures, as outlined in the report, has proved to be effective.

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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;

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

NOW, THEREFORE, in pursuance of clause (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 are agreed upon are:–

a)	Population:	82.0%
b)	Poverty/backwardness:	10.3%
c)	Revenue collection/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:-

The Punjab	51.74%
Sindh	24.55%
Khyber Pakhtunkhwa	14.62%
Balochistan	9.09%
Total:	100.00%

[1][(3) The Federal Government shall guarantee that Balochistan province shall receive the projected sum of eighty-three billon rupees from the provincial share in the net proceeds of divisible pool taxes in the first year of the Award and 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 Award period 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 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 installments 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.

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[1] Substituted vide "Distribution of Revenues & Grants-in-Aid (Amendment) Order, 2015 (President's Order No.6 of 2015)

(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.

GOVERNMENT OF KHYBER PAKHTUNKHWA
FINANCE DEPARTMENT

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ANNEX-I

ECONOMY/AUSTERITY MEASURES FOR FINANCIAL YEAR 2020-21 CIRCULATED VIDE FINANCE DEPARTMENT LETTER NO. BO.I/FD/5-8/2020-21/AUSTERITY MEASURES DATED 30.07.2020

1. Salary budgeting has been done at actual filed positions, therefore, hiring against vacant positions shall be subject to budgetary ceiling fixed in the Integrated Budget Call Circular 2020-21.
2. New creation shall be processed through Finance Department and shall be against the budgetary provisions up to the limit as mentioned in the Lumpsum amount at disposal of Administrative Departments.
3. Request for new posts/ SNEs in respect of completed development projects shall be processed on submission of PC-IV and fulfillments of criteria as circulated by Finance Department.
4. **Purchase of Vehicles**: A committee headed by Secretary Finance, Secretary Administration, Secretary P&D and Secretary of the concerned Department as members shall accord approval to purchase of vehicles other than Ambulances, Earth moving machinery, Fire Trucks, Tractors, Single Cab Pickup 4x4 and 4x2, Trucks, Buses, Passenger Vans, Prisoners Vans, Motorcycles, Water Bowser Trucks, Recovery / Rescue vehicles, Rescue/Life Saving boats. This condition shall not apply to purchase of aforementioned non-luxury vehicles purchased for approved developmental projects subject to revenue clearance certificate by Finance Department.
5. **There shall be a complete ban on:**
   i. Participation in workshops / seminars and training abroad involving provincial funds;
   ii. Holding seminars and Workshops in Five Star Hotels involving Provincial funds;
   iii. Treatment abroad on Provincial Government's expense.
6. All Administrative Secretaries and Heads of Autonomous / Semi-Autonomous Bodies, being Principal Accounting Officers, shall conduct meetings of Departmental Accounts Committee regularly so as to ensure internal audit of their respective Departments / Organizations.
7. To bring efficiency in revenue collections, **"Provincial Revenues Review Committee"** shall meet regularly under the chairmanship of Minister Finance to review the performance of all revenue collecting entities of the Provincial Government and to propose structural changes, performance indicators, legal reforms and other realignments in the procedures.
8. Contingent paid staff shall be engaged during the course of the financial year 2020-21 only after approval of the Finance Department.
9. No appointment shall be made against leave vacancies without prior approval of Finance Department.
10. No appointment will be made against vacant posts (except appointment by promotion) without obtaining NOC from the concerned Surplus Pool. Furthermore, the Competent Authority shall allow the up-gradation on need basis.
11. Principal Accounting Officers will make sure that no appointment is made against vacant posts of dying cadre and will also initiate disciplinary action, if such appointments have been made previously.
12. Expenditure shall be restricted to the funds released and the Administrative Departments shall not incure expenditure in anticipation of additional or supplement grants.
13. No developmental scheme involving creation of posts and purchase of vehicles, machinery & equipment and furniture (Revenue Component), will be considered without prior clearance of Finance Department.
14. No department shall retain receipts in Bank Accounts. The Department must remit all Receipts to Provincial Account forthwith except where Departments / facilities have been specifically permitted under some Statute / Act. All MTIs shall share the balances in Reserve Fund with Finance Department on quarterly basis along-with the Procurement Plan. Release of subsequent quarter's budget shall be subject to submission of reserve funds balances to Finance Department. All Grants in Aid to Bar Councils and Press Clubs shall be released as per approved criteria. Any fund over and above the approved criteria shall be released with the approval of Chief Minister, Khyber Pakhtunkhwa.

15. No funds will be utilized on account of annual and special repair of such Roads & Building (AOM&R) which have been repaired / rehabilitated during last three years except flood and earthquake affected Government Infrastructure. To ensure the scope and standard of such works, Director General, Monitoring & Evaluation (M&E), shall inspect the sites periodically and provide a quarterly report to P&D & Finance Department. The concerned SDO shall submit a certificate to the effect that no funds have been utilized for Repair & Maintenance of the concerned Road & Building in the last three years.
16. 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.
17. All posts which are lying vacant for the last three (03) years shall preferably be abolished by Finance Department unless justified by the Administrative Department.
18. Finance Department shall undertake next phase of the expenditure review to realize further savings as a part of an integrated sectoral review process.
19. All Autonomous / Semi-Autonomous bodies, Medical Teaching Institutions, other Institutions and Authorities under Provincial Government shall adopt the measures within their respective Organizations with the approval of their competent forums.
20. Keeping in view the financial crunch on account of COVID-19, Finance Department shall carry out monthly Receipts and Expenditure reviews and adjust the release under various heads including development release accordingly.
21. Principal Accounting Officers shall overall review the Departmental overall budgets and ensure judicious spending of various entities. Any intra Departmental adjustments / re-appropriations shall be preferably done at level of Principal Accounting Officers to bridge budgetary / release gaps.
22. The Chief Minister shall constitute a Cabinet Committee to review (preferably on monthly basis) the fiscal situation and recommend measures to ensures availability of fiscal space for key service delivery sectors and flagship priorities of the Government.
23. Keeping in view the uncertainty associated with fiscal resources (on account of COVID-19 pandemic), Finance Department shall notify quarterly release policy for development and current sides based upon federal transfers. provincial own source receipts and expenditures incurred. If so warranted, the release policy may be modified even at a higher frequency. For this purpose, a committee under Finance Minister with Additional Chief Secretary P&D Department and Secretary Finance as its members, shall finalize release parameters for given period.

Annex-III

GOVERNMENT OF KHYBER PAKHTUNKHWA
FINANCE DEPARTMENT

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ANNEX-II

RELEASE OF FUND OUT OF BUDGET ESTIMATES 2020-21 CIRCULATED VIDE FINANCE DEPARTMENT LETTER NO. BO.I/FD/5-20/2020-21/BEs DATED 27.07.2020

(A) CURRENT EXPENDITURE – PROVINCIAL INCLUDING MERGED AREAS:

S.No.	OBJECTS	FUNDS TO BE RELEASED
1	• Salary* (*except Honoraria which shall be released on case-to-case basis*)	10%
2	• Electricity • Sui Gas Charges • Advertisement Charges (Current side only) • Financial Assistance to the families of Government servants who die while in service	10%
3	Rest / Others	10%
4	Purchase of Physical Assets except Purchase of Vehicles which will be released on case-to-case basis.	10%
5	Maintenance & Repair **	10%
6	Wheat Subsidy	Release on the request of Food Department
7	Lumpsum Provision	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 up-to 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 and Irrigation Works, 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 2nd 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."
4. **Grant in Aid:** - Grant in Aid will be released subject to the provision of Bank statement by the concerned autonomous entity after unconditional releases of 1st quarter. All Grants in Aid to Bar Councils and Press Clubs shall be released as per approved criteria. Any funds over and above the approved criteria shall be released with the approval of Chief Minister, Khyber Pakhtunkhwa.

(B) CURRENT EXPENDITURE (LOCAL GOVERNMENTS INCLUDING MERGED AREAS)

Sr.#	Grant	Funds to be transferred
1.	Salary	On monthly installment basis subject to adjustment of balance available from previous month.
2.	Non-salary	On quarterly installment basis subject to availability of financial resources.

(C) GRANT TO LOCAL COUNCILS INCLUDING MERGED AREAS

Sr.#	Grant	Funds to be transferred
1.	TMA	On monthly installment basis subject to availability of financial resources.
2.	District Councils	20% share of the Grant on monthly installment basis of the total allocation which shall be released subject to availability of financial resources.
3.	Grant to VCs/NCs	80% share of the Grant on monthly installment basis subject to availability of financial resources.
4.	Cantt: Board	On monthly installment basis subject to availability of financial resources.

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