REPORT ON
2ND BIANNUAL MONITORING ON THE IMPLEMENTATION OF NFC AWARD

(January – June 2013)

Government of Pakistan
National Finance Commission Secretariat

#

LETTER OF TRANSMITTAL

MINISTRY OF FINANCE
ISLAMABAD

Dear Mr. Speaker, National Assembly
Dear Mr. Chairman, Senate
Dear M/S Speakers Provincial Assemblies

The 7th National Finance Commission signed the Award on 30^{th} December, 2009 and its recommendations were given legal cover with effect from 1^{st} July 2010 through President's Order No.5 of 2010 (Distribution of Revenues and Grants-in-Aid Order, 2010). The implementation of 7^{th} NFC Award has been started w.e.f. 1^{st} July, 2010. 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."*

2. In pursuance of the above provision, it is now 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. In this regard, reports for periods i.e. July 1, 2010 to December 31, 2010, from January 1, 2011 to June 30, 2011, from July 1, 2011 to December 31, 2011, January 1, 2012 to June 30, 2012 and July 1, 2012 to December 31, 2012 have already been laid accordingly.

3. The bi-annual monitoring report for the period from January to June, 2013 was approved by the Finance Ministers in Islamabad in meeting held on 16-12-2013. The implementation status on each of the articles of the President's Order was deliberated upon and a report was finalized/approved for laying before both Houses of the Parliament and Provincial Assemblies.

(Senator Mohammad Ishaq Dar)
Finance Minister
Government of Pakistan

Contents

INTRODUCTION

1.1 The NFC Award 2009 has been made applicable with effect from FY 2010-11 through ***"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:

i. 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).

ii. 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).

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

iv. GST on Services (Article 8 of the Order).

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

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

1.2 As provided under clause (3B) of Article 160 of the Constitution, the Federal and Provincial Finance Ministers have to monitor implementation of the Award biannually and lay a report in this regard in both Houses of the Parliament and the Provincial Assemblies. As such, the implementation status of the above provisions of the President's Order, i.e., Distribution of Revenues and Grants-in-Aid Order has been explained in the following chapters.

DIVISION OF DIVISIBLE POOL TAXES

2.1 Articles 1 & 2 consist of title and definition of the Order and therefore no action warrants on these articles.

2.2 Articles 3 and 4 of the President's Order i.e. Distribution of Revenues and Grants-in-Aid Order, 2010 (Award) regulates the distribution of divisible pool taxes between the Federal and Provincial Governments vertically and amongst the four provinces horizontally.

2.3: FBR Tax Receipts

2.3.1 During the financial year (FY) 2012-13, Federal Board of Revenues (FBR) reported tax collection amounting to Rs. 1946.36 billion. Out of this collection, Rs.888.98 billion was reported during first half (July to December, 2012) and collection of Rs.1057.38 billion was reported during second half (January to June, 2013) of the financial year 2012-13. A summarized position is reflected in the following table:

Table-I

2012-13		
1ST Half	**2nd Half**	**Total**
888.98	1057.38	1946.36
45.7%	*54.3%*	*100.0%*

2.4: Distribution of Divisible Pool Taxes

2.4.1 The components of divisible pool taxes are laid down in clause (1) of Article 3 of said Order. 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.1887.31 billion against total tax receipts of Rs.1946.36 billion. A detailed breakup in this regard is given as follows:

Table-II

Rs. in Billion

	FY 2012-13	2nd half of 2012 -13
Total Collection FBR Receipts	**1946.36**	**1057.38**
Less Non-Divisible Pool Components *	**59.05**	**31.84**
* WWF	21.85	14.80
* GST on Services	12.92	4.48
* Excise Duty on Natural Gas	11.45	5.59
* Export Development Surcharge	5.62	3.06
* Income Tax Paid out of the Federal Consolidated Fund	7.21	3.91
Gross Divisible Pool Tax	**1887.31**	**1025.54**

2.5: Vertical Distribution

2.5.1 After subtracting the non-divisible pool components, net divisible pool is determined by deducting cost of collection and then entire proceeds are distributed between the Federation and Provinces in accordance with the provisions of Articles 3 & 4 of said order. The details of vertical distribution are as follows:

Table-III

Distribution (Entire FY-2012-13)

Rs. in billion

	Receipts	Collection Charges (1%)	Net Div. Pool Taxes	1% for WoT for Khyber Pakhtunkhwa	Balance Net Div. Pool	Prov. Share (57.5%)	Prov. Share with 1% WoT
Divisible Pool Taxes	**1887.31**	**18.95**	**1868.36**	**18.68**	**1849.69**	**1063.55**	**1082.23**
Income Tax	713.77	7.21	706.56	7.07	699.49	402.20	409.27
Wealth Tax	0.01	-	0.01	-	0.01	0.00	0.00
Capital Value Tax	0.56	-	0.56	-	0.56	0.32	0.32
Sales Tax (Excl.GST on Services)	829.61	8.30	821.31	8.21	813.10	467.53	475.74
Federal Excise (Excl. ED on NG)	109.52	1.10	108.42	1.08	107.34	61.72	62.80
Customs (Excl. Export Dev. Surcharge)	233.84	2.34	231.50	2.32	229.19	131.78	134.10

Table-IV

Distribution (2nd Half FY-2012-13 i.e. January – June, 2013)

(Rs in billion)

	FBR Receipts	Collection Charges (1%)	Net Div. Pool Taxes	1% for WoT for Khyber Pakhtunkhwa	Balance Net Div. Pool	Prov. Share (57.5%)	Prov. Share with 1% WoT
Divisible Pool Taxes	**1025.54**	**10.28**	**1015.26**	**10.15**	**1005.11**	**577.91**	**588.06**
Income Tax	386.78	3.90	382.88	3.83	379.05	217.94	221.77
Wealth Tax	0.01	-	0.01	-	0.01	0.00	0.00
Capital Value Tax	0.38	-	0.38	-	0.38	0.22	0.22
Sales Tax (Excl.GST on Services)	445.89	4.46	441.43	4.41	437.02	251.28	255.69
Federal Excise (Excl. ED on NG)	63.46	0.63	62.83	0.63	62.20	35.76	36.39
Customs (Excl. Export Dev. Surcharge)	129.02	1.29	127.73	1.28	126.45	72.71	73.99

2.6: Horizontal Distribution

2.6.1 The percentage share of each province in the provincial share of the Divisible Pool Taxes has been laid down in Clause (2) of Article 4. However, Article 3(2) of said order also entitles province of Khyber Pakhtunkhwa to receive 1% of undivided divisible pool taxes on account of losses on war on terror. On this account, the Khyber Pakhtunkhwa province was paid an amount of Rs.18.68 billion for whole FY-2012-13. Out of this amount, Rs.10.15 billion were paid during period of report i.e. January –

June, 2013. Similarly, clause (3) of Article 4 of said order also guarantees that Balochistan province shall receive the projected sum of the provincial 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 for all years of the Award, Federal Government paid an additionality of Rs.17.53 billion from its own resources during the entire financial year 2012-13 based on annual budgetary projections. In the first half (July – December, 2012), this amount was Rs.12.97 billion whereas Rs.4.56 billion were paid in 2nd half (January – June, 2013). The details of horizontal distribution are as follows:

Table-V

(i) Position of Entire FY-2012-13

Rs. in billion

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	100%	51.74%	24.55%	14.62%	9.09%
Divisible Pool Taxes	**1063.55**	**550.28**	**261.10**	**155.49**	**96.68**
Income Tax	**402.20**	208.10	98.74	58.80	36.56
Wealth Tax	**0.00**	-	-	-	-
Capital Value Tax	**0.33**	0.17	0.08	0.05	0.03
Sales Tax (Excl.GST on Services)	**467.53**	241.90	114.78	68.35	42.50
Federal Excise (Excl. ED on NG)	**61.71**	31.93	15.15	9.02	5.61
Customs (Excl. Export Dev. Surcharge)	**131.78**	68.18	32.35	19.27	11.98

Table-VI

(ii) Total Figures for 2nd Half (Jan. – June, 2013) FY-2012-13

(Rs in billion)

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	100%	51.74%	24.55%	14.62%	9.09%
Divisible Pool Taxes	**577.91**	**299.01**	**141.88**	**84.49**	**52.53**
Income Tax	**217.95**	112.77	53.51	31.86	19.81
Wealth Tax	**0.00**	-	-	-	-
Capital Value Tax	**0.21**	0.11	0.05	0.03	0.02
Sales Tax (Excl.GST on Services)	**251.28**	130.01	61.69	36.74	22.84
Federal Excise (Excl. Excise Duty on NG)	**35.76**	18.50	8.78	5.23	3.25
Customs (Excl. Export Dev. Surcharge)	**72.71**	37.62	17.85	10.63	6.61

Table-VII

Releases to Khyber Pakhtunkhwa and Balochistan

(Rs in billion)

	FY 2012-13	2nd Half of FY 2012-13
Khyber Pakhtunkhwa		
Share in the Divisible Pool (14.62%)	155.49	84.49
1% War on Terror	18.68	10.15
Total:-	**174.17**	**94.64**
Balochistan		
Share in the Divisible Pool (9.09%)	96.68	52.53
Additionality provided by Federal Government	17.53	4.56
Total:-	**114.21**	**57.09**

2.6.2 For the above table, the Government of Balochistan raised objection that budgetary projection on account of Balochistan's share should be Rs.116.399 billion as reflected/ printed in Explanatory Memorandum on Federal Receipts for F.Y.2012-13 instead of Rs.114.206 billion conveyed to the Government of Balochistan. In view of the objection of Government of Balochistan, it was agreed that figure of budgetary projection shall be settled in consultation with the Government of Balochistan in the light of clause 4(3) of the Presidential Order No. 5 of 2010, in due course.

STRAIGHT TRANSFERS/GRANTS-IN-AID

3.1: Distribution of Royalty on Crude Oil

3.1.1 Article 5 of said order relates to the distribution of net proceeds of royalty on crude oil. The M/o Petroleum and Natural Resources is responsible for collection of this levy which is reported to Finance Division monthly for onward transfer to provinces. Accordingly, entire net proceeds reported by M/o Petroleum and Natural Resources were distributed amongst the provinces in accordance with said provision as follows:

Table-VIII
Royalty on Crude Oil

Rs in billion

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
(FY-2012-13) Full year	4.838	10.130	12.871	0.005	27.844
2nd half (FY-2012-13) (Jan. – June,2013)	2.302	6.864	7.824	0.003	16.993

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

3.2.1 Article 6 of the Order (Award) governs distribution of Development Surcharge on Gas (GDS) and Royalty on Natural Gas. M/o Petroleum and Natural Resources is the collecting agency for these two levies. The proceeds collected are reported to Finance Division monthly for onward transfer to provinces. Accordingly, entire net proceeds of Royalty and Development Surcharge on Gas reported by M/o Petroleum and Natural Resources were distributed amongst the provinces in accordance with said provision as follows:

Table-IX
Figures for the Entire FY-2012-13

GDS and Royalty on Natural Gas

Rs in billion

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	2.189	28.610	3.741	4.845	39.385
Gas Dev. Surcharge	0.333	7.637	1.648	3.943	13.561

Table-X
2nd Half (Jan. – June, 2013) FY-2012-13

Rs in billion

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.798	17.003	2.017	0.533	20.351
Gas Dev. Surcharge	0.165	2.763	0.805	3.171	6.904

3.2.2 As per clause (2) of Article 6, GDS payable to Balochistan with effect from 01.07.2002 to 30.06.2010 was to be worked out subject to a maximum of Rs.10 billion which was to be paid to Balochistan province in five years. Therefore, Federal Government has paid an amount of Rs.6.0 billion to Government of Balochistan through allocation of an amount of Rs.2.0 billion per annum in FY 2010-11, FY 2011-12 and FY 2012-13. An amount of Rs.1.0 billion was released on this account to Balochistan province during January to June 2013 i.e. 2nd half of FY 2012-13 during period of report.

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 collecting agency for this levy. The proceeds so collected are reported to Finance Division monthly for onward transfer to provinces. Accordingly, net proceeds were distributed amongst the provinces in accordance with said provision as follows:

Table-XI
Excise Duty on Gas

Rs in billion

	Punjab	Sindh	Khyber Paktunkhwa	Balochistan	Total
FY-2012-13(Full year)	0.490	7.754	1.371	1.822	11.437
2nd half (FY-2012-13) (Jan. – June,2013)	0.229	3.770	0.636	0.958	5.593

3.3.2 The figures reflected in the above table represent actual transfer on account of Excise Duty on Natural Gas during the F.Y.2012-13. These figures include arrears of Excise Duty on Natural Gas of F.Y.2011-12 paid in F.Y.2012-13 but excludes the arrears of F.Y.2012-13 paid in F.Y.2013-14. However, Punjab Government is of the view that the

Straight Transfers/Excise Duty on Natural Gas should reflect only those receipts which were collected/transferred to Punjab in lieu of the F.Y.2012-13.

3.4 Grants-in-Aid to Sindh Province

3.4.1 Under Article 7 of said 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 Zilla Tax. During the financial year 2012-13, the provincial share in the divisible pool was Rs.1063.5 billion. Accordingly, said grant-in-aid was worked out to be Rs.7.0 billion. On this account an amount of Rs.7.3 billion was paid to the Government of Sindh during FY-2012-13 including some arrears pertaining to FY-2011-12. Out of this amount, Rs.3.4 billion was paid to Government of Sindh during period of report i.e. January to June, 2013.

GENERAL SALES TAX ON SERVICES

4.1 General Sales Tax on Services (GSTS)

4.1.1 Through Article 8 of said order, 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 Government of Sindh and Punjab since established their own Revenue Agencies, they started collecting GST on Services on their own. However, other two provinces maintained status-quo during period of report i.e. January to June, 2013 and FBR continued to collect GST on Services on their behalf. As per Civil Accounts as of June 2013, Sindh Government collected Rs.34.2 billion whereas Punjab Government collected Rs.33.4 billion on account of GST on Services.

4.1.3 During whole financial year 2012-13, FBR collected an amount of Rs.12.922 billion on account of General Sales Tax on Services. As the amount also included some arrears of the Punjab Government, the break up of province-wise distribution of GST on Services is as follows:

Table-XII

Rs in billion

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total	ICT	Grand Total
Gross collection	1.563	-	4.741	1.757	8.061	4.861	12.922
Less 1% Collection charges	0.016	-	0.047	0.018	0.081	-	-
GST on Services paid to provinces	1.547	-	4.694	1.739	7.980	-	-

Note: The figures in the above table represent actual share of the provinces exclusively for FY-2012-13 as reported by FBR. However, actual releases may vary due to adjustments of excess release made during FY-2011-12.

MISCELLANEOUS PROVISIONS OF THE AWARD

5.1: Miscellaneous

5.1.1 Article-9 of said order relates to miscellaneous recommendations. In this regard, clause 9(1) provided 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 tax efforts to improve taxation and to maintain fiscal discipline by the Federal and Provincial Governments. In this regard, the NFC recommended that the Federal Government and Provincial Governments would streamline their tax collection systems to reduce leakages and increase revenues through efforts to improve taxation in order to achieve a 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-XIII

As % of GDP

	Benchmark	Projections				
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Tax to GDP Ratio	10.70	11.75	12.80	13.60	14.30	15.00
Federal	10.2	11.10	12.00	12.70	13.30	13.85
Provincial	0.50	0.65	0.80	0.90	1.00	1.15
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 As against the above recommended path, the tax to GDP ratio witnessed during 2011-12 and 2012-13 remained as follows:

Table-XIV

	2011-12	2012-13	Growth (%)
Total Tax Receipts	**2056.34**	**2207.20**	7.3%
	9.9%	9.6%	
Federal	**1915.70**	**2048.51**	**6.9%**
	9.3%	***8.9%***	
of which FBR Receipts	*1852.82*	*1938.30*	*4.6%*
Provinces	**140.64**	**158.69**	**12.8%**
	0.7%	***0.7%***	
Punjab	68.96	78.46	13.8%
Sindh	60.35	68.59	13.7%
Khyber Pakhtunkhwa	8.53	8.79	3.0%
Balochistan	2.80	2.85	1.9%
GDP (mp)	20654.0	22909.0	

Note: GST on services reflected for respective provincial government being a provincial levy and corresponding adjustment has been made in the FBR receipts. Details of Provincial Own Receipt added as Annex-II & III.

5.2.3 In pursuance, various steps taken by the Federal Government through FBR are reproduced as follows:

- FBR has launched a massive campaign against non-filers and tax evaders. Notices have been issued besides other effective administrative measures for plugging loopholes in the system. In order to check tax evasion, Computerized Risk-Based Evaluation of Sales Tax (CREST) system has been extended to other sectors of the economy. Similarly, comprehensive audit plan has been devised for deterrence and improving tax compliance. Besides, new withholding administrative zonal offices have been created to make effective monitoring of withholding agents.

- FBR is making all out efforts to generate sufficient resources for the government to meet its expenditure and to increase the tax-GDP ratio to a respectable level. FBR aims to increase tax-GDP ratio in the range of 13-15% during mid to long term period. A number of additional tax policy and administrative reforms are being undertaken on the Inland Revenue side in this regard which include:

    - Phasing out duty/tax exemptions and concessions to help broadening of the tax base and making the system equitable for taxpayers.

    - Strengthening of enforcement and audit functions in order to increase tax compliance.

    - Prevention of revenue leakages through automation and Re-engineering of Business Processes (RBP).

    - New taxation measures have been introduced through Finance Act, 2013 in the Income Tax Ordinance, 2001 to enlarge the scope of Direct Taxes leading to achievement the Tax-GDP ratio of 15%.

- Broadening of the Tax Base through enhanced efforts and registration of non-filers of Income Tax returns.
- Automation of the business processes.
- Integration of Sales Tax and Income Tax functions as a single IR function.
- Interfacing with NADRA, Excise Departments, Registration Authorities and other third parties for identifying the potential tax payers/tax evaders.
- Minimizing the tax exemptions through Finance Act, 2013.
- Evaluating of the vibrant sectors of economy and tax potential of actual vis-à-vis their contribution to total revenues.

➢ The tax base for the purposes of customs duty is primarily the dutiable imports of the country which are extremely sensitive, not only to the internal economic and security conditions, but also to fluctuations in the international commodity prices. The custom's revenue base is further eroded by the large number of exemptions and concessions introduced as part of national policy for revival/growth of industry and promotion of exports. Despite these handicaps and significantly lower growth in overall imports, there has been an increase of 10% in the collection of customs duty during the period of January-June of FY-2012-13 when compared to the same period of last financial year. It is expected that the overall growth in economic activity in the country will result in growth in imports which, coupled with the administrative efforts, will enable FBR to effectively contribute in overcall efforts of the Board to achieve the tax to GDP ratio as desired by the NFC recommendation.

5.2.4. In pursuance of Article 9(2) of the Award, the Provincial Governments have also informed of their efforts, reproduced as follows:

Government of Punjab

➢ Government is striving to considerably expand the revenue base and fully tap the provincial resource potential. Moreover, special emphasis has also been placed on improving the collecting efficiency of tax administering departments. It may be added that Chief Secretary Punjab personally monitors the progress of revenue collection and chairs meetings of provincial own receipts on regular basis. For effective monitoring of revenue collection, six monthly targets were assigned to the departments under directions of the Chief Secretary. For FY 2012-13, a target of Rs.129.938 billion of provincial own receipts was fixed and major revenue collecting departments were instructed to maximize their revenue collection through structural reforms; administrative measures; special campaigns etc.

- In order to provide relief to tax payers especially women in cases of partition as a result of inheritance of property, the existing 2% advoleram stamp duty was replaced by a token fixed fee of Rs.500 only.

- To facilitate the tax payers in deposit of Property Tax, Government extended the period from 02 months to 03 months for payment of the tax with a rebate of 5%. Further amendments have been made in the Punjab Urban Immovable Property Tax Act, 1958 to encourage payment of the tax on regular yearly basis. In order to ensure timely deposit of the tax, late payment surcharge at the rate of 1% of the gross payable tax has been imposed on the first day of every month of delay if the tax is not deposited by the due date. Similarly, data of property tax in few important cities/locations having maximum revenue potential is being automated along with emphasis on improving the processes aimed at 'ease of doing business' for tax payer's facilitation.

- In order to enhance revenue collection and reduce hassle for the Public, Government has levied a lump sum token tax of Rs.10,000/- for motorcars and jeeps upto 1000 cc at the time of registration (life time) by amending the Punjab Motor Vehicles Taxation Act, 1958.

- The Punjab Government has reintroduced the Capital Value Tax on immovable property vide Punjab Finance Act 2010, on different rates of taxes.

- Amendments have also been made in the relevant sections of Punjab Finance Act, 2011 pertaining to Farm House Tax and Education Cess on Club in order to bring more clarity in the laws and improve administration of these taxes.

- Government levied Excise Duty @ Rs.2.0 per litre on manufacturing of Rectified Spirit in distilleries.

- Government created Punjab Revenue Authority as a major reform initiative under the Act of Assembly initially with the mandate to administer and collect Sales Tax on Services followed by collection of other important provincial taxes. It is further added that for improving the administration of Sales Tax on Services, Government has introduced a comprehensive Punjab Sales Tax on Service Act, 2012 covering imposition, collection, management and enforcement of this tax. The Authority started collecting Sales Tax on Services w.e.f. 1st July, 2012 and a collection target of Rs.40.496 billion was assigned to it by the Government for FY 2012-13 out of which the Authority collected an amount of Rs.34.2 billion during the FY 2012-13.

Government of Sindh

- The introduction of SAP/R3 system has increased provincial own receipts by 24% during financial year 2012-13 as compared to that of FY 2011-12. This achievement has been made without any increase in rate or innovation in taxation.

- More than 80% of provincial revenues are being collected by the FBR and distributed under the arrangement of NFC Award. Therefore, the major responsibility lies at the shoulder of FBR as far as the achievement of 15% tax to GDP ratio is concerned, the trend in Sindh Government's own receipts indicates an average growth of 15% during the period from 2004-2005 to 2010-11. However, the Government of Sindh is taking a series of reform related initiatives in its receipts and expenditure sites for the year 2012-13. The automation of Board of Revenues, Excise and Taxation Department, and Sindh Revenue Board are on top of the agenda. The Land Administration and Revenue Management Information System (LARMIS) for the computerization of lands record in Sindh is one of such initiatives. Moreover, focus is also being given on capacity building of revenue of these departments.

- Agriculture Income Tax is being harmonized in consultation with the stakeholders.

- Special attention is being given for the improvement in existing structure and systems of Motor Vehicle Tax and Property Tax. All types of live transactions of Motor Vehicle Tax Revenue are carried out through new computerized system. The Data of Property Tax is also digitized and the issuance of computerized challans in some Divisions of Karachi have been tested and will be started at the end of current of financial year. In this context, more than 95% work of computerization of taxes has been completed. All software applications have been developed, IT infrastructure has been established. Necessary training of staff has been completed and they are working on newly developed software applications.

Government of Khyber Pakhtunkhwa

- The Provincial Government of Khyber Pakhtunkhwa has taken following initiatives/measures to increase Provincial own Revenue and Tax to GDP ratio in line with clause-02 of Article-9 of the 7th National Finance Commission Award.

A-Tax Receipt

- Revision of rates of various taxes i.e. UIP, Motor Vehicles, Tax on Profession Trade and Calling, Tobacco, Sugarcane Development Cess, Court Fee etc.
- Provincialization and rationalization of Rates of Capital Value Tax (CVT).
- Expansion of tax net in respect of UIP and Tax on Profession Trade and Callings.
- Categorization of property situated at different locations for the purpose of tax and extension of rating area.

B-Non Tax Receipt

- Revision of fee under electricity Rules, Timber Duty rates, Water Charges, Contractor Registration and Tender Form fee.

C- Other Reforms

- Persons who have declared Agriculture Income in their Tax Returns received from FBR are brought under Agriculture Income Tax net.

- Make it mandatory for owners and cultivators of 12 ½ acres or more of cultivated irrigated land, 25 acres of cultivated un-irrigated land or mature orchard having net income more than 100,000/- to self assess their Agriculture Income and file Agriculture, Income Tax Returns. As a result of which cultivators have been brought into the tax net and the number of tax payers increased from 112 to 4799.
- Comprehensive instructions have been issued for activities from crop inspection, assessment of Agriculture Income, filling of return and issuance of tax demand.
- Following reforms are also under consideration towards harmonization of Agriculture Income Tax.
    - Introduction of uniform rates of Agriculture Income Tax in all the province.
    - Withholding Tax on marketable surpluses of Agriculture Sector which is purchased through formal mechanism.
    - Reduction in the Exemption ceiling of 05 Acre under Land Tax.
    - Simplification and standardized Agriculture Income Tax Forms.
    - Setting up an administrative structure for collection and monitoring of Agriculture Income Tax.
    - Regular sharing the data of Agriculture Income in the Tax Return with all provincial governments by FBR.
    - The capacity building of revenue staff for scrutinizing Agriculture Income Tax Return and maintaining data of Agriculture Income Tax in consultation with FBR.

Government of Balochistan

- **The Stamp Act, 1899 (Act II of 1899);**

  The value of immovable property shall be calculated according to valuation table notified by Deputy Commissioner in respect of immovable Property situated in the locality.

- **The Balochistan Land Revenue Act 1967 (Act No.XVII of 1967);**

  The mutation fee is fixed at a certain percentage of the consideration or value of land, the consideration or value of the land shall be calculated according to the valuation table notified by the Collector in respect of the situated in the locality under the Stamp Act 1899 (II of 1899).

- **Levy of tax on capital value (CVT) of immoveable property;**

  Tax on the capital value of an immoveable property, called the Capital Value Tax has been imposed, payable by every person who acquires by purchase, gift, exchange, power of attorney other than revocable and time-bound (not exceeding sixty days) executed between spouses, father and son or daughter, grand parents and grand children, brother and sister, surrender or relinquishment of rights by the owner (whether effected orally or by deed or obtained through court decree)accept by inheritance or gift from spouse, parents, grand parents, brother or a sister of an immoveable property or a right to use thereof for more than twenty years, or renewal of the lease or any premium paid thereon, at following rates:

a) Residential immoveable property (other than flats) situated in an urban area, measuring at least 500 Square Yards or one Kanal (which is less) and more,-

Description of immovable property	**Rate of tax**	
(i)Where the value of immoveable property is recorded.	4% of the recorded value of the landed area or value specified in valuation table	Which ever is higher.
(ii)Where the value of immoveable property is not recorded.	Rs.100/- per square yard of the landed area.	
(iii)Where the immoveable property is a contracted property.	Rs.10/- per square feet of the constructed area in addition to the value worked out above.	

b) Commercial immoveable property of any size situated in an urban area;-

Description of immovable property	**Rate of tax**	
(i)Where the value of immoveable property is recorded.	4% of the recorded value of the landed area or value specified in valuation table	Which ever is higher.
(ii)Where the value of immoveable property is not recorded.	Rs.100/- per square feet of the landed area.	
(iii)Where the immoveable property is a contracted property.	Rs.10/- per square feet of the constructed area in addition to the value worked out above.	

c) Residential flats of any size situated in an urban area;-

Description of immovable property	Rate of tax
(i)Where the value of immoveable property is recorded.	4% of the recorded value.
(ii)Where the value of immoveable property is not recorded.	Rs.100/- per square feet of the covered area.

- **<u>Amendment in Act No.V of 1958;</u>**

  The Balochistan urban Immoveable property Tax Act, 1958 (Act No.V of 1958) through amendment the exemption threshold has been reduced from current residential houses constructed area of 4500 sq.ft. to 2500 sq.ft. (owned and self-occupied for residential purpose by every citizen).

- **<u>Amendment in Ordinance 1 of 2000;</u>**

  The Balochistan Sales Tax Ordinance 2000 the existing schedule of taxable services has been expended significantly carrying PCT heading and made in line with the deliberations and agreements reached amongst the Federal Government and Provinces on RGST.

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 are reproduced as follows:

- Allocated resources for current expenditure and Development expenditure are being released as per mechanism/procedure as laid down in revised system of financial control and budgeting.
- Revenue collection and expenditure are monitored on monthly basis.
- Provincial revenues/expenditure are also being monitored on monthly basis.
- Efforts are being made to avoid un-budgeted expenditure.
- Cut has been imposed at 30% of budget estimates 2013-14 excluding debt servicing, defence, pay and allowances, subsidies and grants shall be reduced by 30%.

- No vehicle shall be purchased except operational vehicles of law enforcement agencies and critical development projects.
- All air conditioners in all offices shall be turned off during the office hours. There shall be no more use of air conditioners in public offices till such time that substantial improvement in energy situation takes place.
- Principal Accounting Officers will ensure rationalization of utility bills.

5.3.2 In pursuance of Article 9(3) of said order, steps and measures taken by the Provincial Governments are reproduced as follows:

Government of Punjab

- Government has been releasing development funds on quarterly basis in order to match transfer of development funds with available fiscal space to Punjab Government.
- Government has been following strict austerity measures to reduce expenditure on purchase of durable goods. Purchase of all durable goods is subject to clearance of the high level austerity committee headed by Finance Minister.
- Release of development funds is being strictly monitored alongwith actual expenditure against the released amounts to avoid unnecessary parking of funds.
- The robust system developed in FY 2010-11 for management of cash balance has been continued through FY 2012-13. In this system, the liabilities of the Government, accruing against budgeted/authorized amounts, are being monitored at three stages i.e. bill generation, receipt of cheques in treasury office and authorization of payment and withdrawal of cash from the Government account.
- In order to minimize un-necessary expenditure, only 40% of non-salary budget was allocated for the first half of FY 2012-13. However, its utilization was further subjected to placing only 20% of the released budget on SAP system for the first quarter of FY 2012-13. The remaining 20% budget was transferred at the start of 2^{nd} quarter through SAP system. For the 2^{nd} half of the financial year, 30% of the remaining 60% balance was released in the 3^{rd} quarter of financial year. Remaining was released in the last quarter of the FY 2012-13.

Government of Sindh

- Mandate to implement Medium Term Budgetary Framework (MTBF) in all departments of Sindh Government. MTBF was initiated from FY 2009-10 on pilot basis and has been successfully implemented in the Department of Education & Literacy, Irrigation, Agriculture, Livestock & Fisheries, Energy, Special Education, Social Welfare, Health Department and all their subordinate field offices.

- Capacity Building Workshops for each MTBF department for preparation of budget under MTBF including underlying processes and strategies. Group activities or practical exercises are also being conducted in the workshops. Series of Handholding support are also provided to all DDOs of MTBF departments for the finalization of budget estimates as per indicative budget ceilings.

- The Government of Sindh has also taken following measures to control expenditure:

    - Foreign visits/trainings on Government expenses have been curtailed.

    - Ban has been imposed on purchase of vehicles. No vehicles are being purchased other than operational vehicles for Police.

    - Even the purchase of physical assets like air-conditioners, generators computers have been totally stopped and is being allowed only where need is most urgent and that too with the approval of Chief Minister only.

    - In order to streamline administrative discipline and reduce unnecessary burden on the provincial exchequer, the Government of Sindh has restructured administrative departments. The number of departments has been reduced from 47 to 39.

    - **Cash Monitoring:** The cash balance position is being closely monitored with State Bank of Pakistan. The releases of funds are made on the basis of availability of cash in Non-Food Account No.1. Finance Department remains in contact with SBP on daily basis and before issuing any advice of release of funds it first makes ensure that cash position must remain within the Ways and Means limit. Government of Sindh has developed a mechanism where releases are being monitored at three stages. First when release is made for a particular ADP schemes, second when the funds are transferred into Assignment Account and third, when the Assignment Accounts cheques are endorsed by Treasury. This elaborates mechanism of monitoring helped Government of Sindh in keeping its cash balances within Ways and Means limit during financial year 2012-13. The Government of Sindh is in process of further strengthening institutionally this mechanism.

Government of Khyber Pakhtunkhwa

- To observe fiscal discipline and streamlining the management in public accounts, the Government of Khyber Pakhtunkhwa has taken certain measures such a uniform expenditure in each month, clearance of accrued liabilities in time and encashment of all cheques by 30th June, 2013.

- The Government of Khyber Pakhtunkhwa has approved certain guiding principles for all departments to curtail the current expenditure in the form of Economy/Austerity measures for the Financial Year 2012-13.

- In order to streamline Fiscal Discipline in public accounts, the Government of Khyber Pakhtunkhwa has directed certain economy measures to observe fiscal discipline during the current financial year 2012-13.

- The Government of Khyber Pakhtunkhwa has committed not to go in the overdraft from the State Bank of Pakistan and the cash balance position of the Provincial Government with State Bank of Pakistan is satisfactory.

- The Province's own receipts and incurrence of expenditure are monitored each month for maintenance of fiscal discipline in the Province.

5.4 Specific Grants

5.4.1 Article 9(4) of said order provides that Federal Government may assist the provinces through specific grants in times of unforeseen calamities. In this regard, the Federal Government provided following grants to the Government of Sindh and Punjab during the period of report i.e. January to June, 2013:-

i. Government of Sindh was provided a grant of Rs.5.045 billion to provide finances for Pakistan Cards to the Affectees of Rains/Flood in the Province of Sindh.

ii. Government of Punjab was provided a grant of Rs.5.700 million for victims of roof collapse of a school in Narowal whereas Rs.1.400 million were also provided for victims of Bamboo Village dacoity in Narowal.

List of Abbreviations

CREST	Computerization of Risk-Base Evaluation of Sales Tax
CVT	Capital Value Tax
DDO	Drawing and Disbursing Officer
DIV	Divisible
ED.	Excise Duty
EXCL	Excluding
FBR	Federal Board of Revenue
GDP	Gross Domestic Product
GDS	Gas Development Surcharge
GSTS	General Sales Tax on Services
LARMIS	Land Administration of Revenue Management Information Systems
MTBF	Medium Term Budgetary Framework
NFC	National Finance Commission
NG	Natural Gas
OZT	Octroi and Zilla Tax
PROV	Provincial
SAP	System Application Products
WWF	Worker Welfare Fund