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

(January - June, 2019)

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 January to June, 2019 was approved by the NFC Monitoring Committee in a meeting held on 12th March, 2020, at Islamabad for laying before both Houses of the Parliament and Provincial Assemblies.

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

Naveed Kamran Baloch
Secretary
Finance Division

Islamabad, the 3rd April, 2020

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EXECUTIVE SUMMARY

This 2nd Biannual Monitoring Report on implementation of 7th NFC award covers the period from January to June, 2019 of Financial Year 2018-19. Total tax collection as reported by FBR remained Rs.2,013.480 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.1,951.088 billion. The Provincial share comes to Rs.1,121.876 billion, leaving a balance of Rs.829.212 billion for Federal Government. The Provincial share has been distributed as Rs.580.459 billion to Punjab (51.74%), Rs.275.420 billion to Sindh (24.55%), Rs.164.018 billion to Khyber Pakhtunkhwa (14.62%) and Rs.101.979 billion to Balochistan (9.09%). Khyber Pakhtunkhwa got Rs.19.708 billion on account of War on Terror. Similarly, Balochistan got Rs.10.079 billion on account of additionality.

On account of Royalty on Crude Oil, Gas Development Surcharge (GDS) and Royalty on Natural Gas Rs.15.361 billion, Rs.2.075 billion and Rs.24.554 billion respectively were collected and transferred to the Provinces during January-June, 2019. Similarly, an amount of Rs.4.836 billion has been transferred to Provinces on account of excise duty on Natural Gas during the report period.

The Province of Sindh is entitled to receive grant-in-aid equivalent to 0.66% of the provincial share in the net proceeds of the divisible pool, as compensation for losses on account of abolition of Octroi and Zilla Tax. An amount of Rs.7.404 billion was released to Government of Sindh on this account accordingly.

INTRODUCTION

1.1 The NFC Award 2009 has been in implementation since 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:

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(Articles 5 & 6 of the Order).

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

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

e. Achieving 15% Tax to GDP ratio by 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).

f. 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 been mandated to monitor implementation of the Award biannually and lay reports in this regard in both Houses of the Parliament and the Provincial Assemblies. The following pages present the implementation status of the above provisions of the President's Order, i.e., Distribution of Revenues and Grants-in-Aid Order, 2010.

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

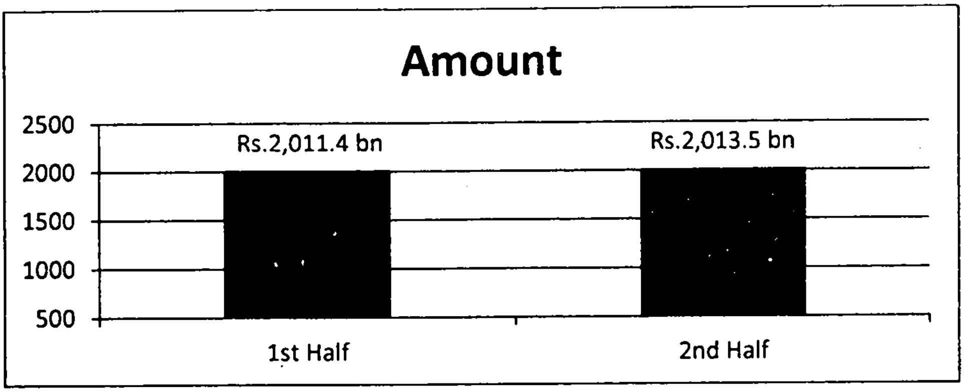
2.1.1 Federal Board of Revenues (FBR) reported the following tax collection for financial year 2018-19:

TABLE-I:Total FBR Collection during FY: 2018-19

(Rs. in Billion)

A	Provisional collection reported on fortnightly basis during FY 2018-19	3.601.453
B	Arrears worked out on receipt of final reconciled collection for FY 2017-18 reported in FY 2018-19	423.469
C	**Total Collection reported during FY 2018-19 (A+B)**	**4,024.922**

2.1.2 The releases to the Provinces during the financial year 2018-19 were made on the basis of FBR collection amounting to Rs. 4,024.922 billion. Out of this collection, Rs.2,011.442 billion was reported during first half (July to December, 2018) and Rs.2,013.480 billion was reported during second half (January to June, 2019) of the financial year 2018-19. The following chart shows a snapshot of collection during the two halves:



2.2 Distribution of Divisible Pool Taxes

2.2.1 The components of divisible pool taxes are laid down in clause (1) of Article 3 of the President's Order 2010. Total receipts of FBR also include some non-divisible pool components. Therefore, after deducting such components, the gross divisible pool taxes were worked out as Rs.3,995.479 billion against total tax receipts of Rs.4,024.922 billion. Gross divisible pool taxes for 2nd half of F.Y.2018-19 (January-June, 2019) come to Rs.1,998.244 billion. A detailed breakup of non-divisible pool components is given as follows:

TABLE-II: Details of Non-Divisible Pool Components

(Rs. in billion)

	FY 2018-19	2nd half 2018-19
Total Collection FBR Receipts	**4,024.922**	**2,013.480**
Less Non-Divisible Pool Components	**29.443**	**15.236**
WWF	8.185	4.341
GST on Services	2.754	1.370
Excise Duty on Natural Gas	9.670	4.903
Income Support Levy	-	-
Exp. Development Surcharge	8.834	4.622
Gross Divisible Pool Tax	**3,995.479**	**1,998.244**

2.3: Vertical Distribution

2.3.1 After subtracting the non-divisible pool components out of FBR taxes, net amount of divisible pool taxes 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 & 4 of the Order. The details of vertical distribution for entire Financial Year 2018-19 and 2nd half of FY-2018-19 (Jan-June, 2019) are as follows:

TABLE-III: Vertical Distribution of Share For F.Y-2018-19

(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%)
Divisible Pool Taxes	**3,995.479**	**55.237**	**3,940.242**	**39.402**	**3,900.840**	**2,242.982**
Income Tax	1,528.184	30.564	1,497.620	14.976	1,482.644	852.520
Capital Value Tax	4.145	0.042	4.103	0.041	4.062	2.336
Sales Tax (Excl.GST on Services)	1,533.624	15.336	1,518.288	15.183	1,503.105	864.285
Federal Excise (Excl. ED on NG)	243.133	2.431	240.702	2.407	238.295	137.019
Customs (Excl. Export Dev. Surcharge)	686.393	6.864	679.529	6.795	672.734	386.822

* Includes deduction of Income Tax Paid out of the Federal Consolidated Fund

TABLE-IV: Vertical Distribution of Share For 2nd Half FY-2018-19 (January – June, 2019)

(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%)
Divisible Pool Taxes	**1,998.244**	**27.448**	**1,970.796**	**19.708**	**1,951.088**	**1,121.876**
Income Tax	746.557	★14.931	731.626	7.316	724.310	416.478
Capital Value Tax	2.254	0.023	2.231	0.022	2.209	1.270
Sales Tax (Excl.GST on Services)	773.505	7.735	765.770	7.658	758.112	435.915
Federal Excise (Excl. ED on NG)	137.286	1.373	135.913	1.359	134.554	77.369
Customs (Excl. Export Dev. Surcharge)	338.642	3.386	335.256	3.353	331.903	190.844

★ Includes deduction of Income Tax Paid out of the Federal Consolidated Fund

2.4: Horizontal Distribution

2.4.1 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 of President's Order. Provincial share against their percentages for entire Financial Year 2018-19 has been worked out as follows:

TABLE-V: Horizontal Distribution of Share For FY-2018-19

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
	(51.74%)	(24.55%)	(14.62%)	(9.09%)	100%
Divisible Pool Taxes	**1,160.519**	**550.652**	**327.924**	**203.887**	**2,242.982**
Income Tax	441.094	209.294	124.638	77.494	**852.520**
Capital Value Tax	1.208	0.573	0.342	0.212	**2.335**
Sales Tax (Excl.GST on Services)	447.181	212.182	126.359	78.564	**864.286**
Federal Excise (Excl. ED on NG)	70.894	33.638	20.032	12.455	**137.019**
Customs (Excl. EDS)	200.142	94.965	56.553	35.162	**386.822**

2.4.2 The table below presents the horizontal distribution of share for the 2nd half of FY 2018-19:

TABLE-VI: Horizontal Distribution of Share For 2nd Half of FY-2018-19 (Jan - June, 2019)

(Rs in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
	(51.74%)	(24.55%)	(14.62%)	(9.09%)	100%
Divisible Pool Taxes	**580.459**	**275.420**	**164.018**	**101.979**	**1,121.876**
Income Tax	215.486	102.245	60.889	37.858	**416.478**
Capital Value Tax	0.657	0.312	0.186	0.115	**1.270**
Sales Tax (Excl.GST on Services)	225.542	107.017	63.731	39.625	**435.915**
Federal Excise (Excl. ED on NG)	40.031	18.994	11.311	7.033	**77.369**
Customs (Excl. EDS)	98.743	46.852	27.901	17.348	**190.844**

2.4.3 Khyber Pakhtunkhwa has been paid an amount of Rs.367.326 billion during F.Y.2018-19. Out of this an amount of Rs.183.726 billion was paid during the period under report i.e January-June, 2019. Detail of amounts released to Khyber Pakhtunkhwa is shown as under:

TABLE-VII: Releases To Khyber Pakhtunkhwa on Account of WoT

(Rs in billion)

Particulars	FY 2018-19	2nd Half of FY 2018-19
Share in the Divisible Pool (14.62%)	327.924	164.018
1% War on Terror	39.402	19.708
Total:-	**367.326**	**183.726**

2.4.4 Similarly, Clause (3) of Article 4 of the President's 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. Federal Government paid an additionality of Rs. 10.079 billion from its own resources, based on annual budgetary projections, to Balochistan Province during the period of report. It may be added that the above releases of the entire financial year 2018-19 stands reconciled with the Provincial Finance Departments.

STRAIGHT TRANSFERS/GRANTS-IN-AID

3.1: Distribution of Royalty on Crude Oil

3.1.1 Article 5 of the President's 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 monthly for onward transfer to Provinces. Accordingly, entire net proceeds reported by Petroleum Division were distributed amongst the Provinces as shown below:

TABLE-VIII: Royalty on Crude Oil

(Rs in billion)

Period	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
FY:2018-19 Full Year	4.451	7.471	16.146	0.004	28.072
2nd Half FY:2018-19(Jan-Jun,2019)	2.345	4.821	8.192	0.003	15.361

3.2: Distribution of GDS and Royalty on Natural Gas

3.2.1 Article 6 of the President's Order governs distribution of Development Surcharge on Gas (GDS) and Royalty on Natural Gas. Petroleum Division 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 Petroleum Division were distributed amongst the Provinces as presented in the following table:

TABLE-IX: Total Distribution of Royalty on Natural Gas and GDS For FY.2018-19

(Rs in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	1.661	29.801	7.874	11.286	**50.622**
Gas Development Surcharge	0.430	5.491	0.188	0.741	**6.850**

TABLE-X: Amount of Royalty on Natural Gas and GDS in 2nd Half Of FY.2018-19 (January - June, 2019)

(Rs in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.891	17.538	4.419	1.706	**24.554**
Gas Dev. Surcharge	0.137	1.871	0.067	-	**2.075**

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 Natural Gas

(Rs in billion)

Period	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
FY:2018-19 Full Year	0.360	6.193	1.470	1.484	9.507
2nd Half FY:2018-19 (Jan-Jun, 2019)	0.262	3.015	0.729	0.830	4.836

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

3.4 Grants-in-Aid to Sindh Province

3.4.1 Under Article 7 of the Order, Sindh province is entitled to receive a grant-in-aid equivalent to 0.66% of the provincial share in the net proceeds of the divisible pool, as a compensation for losses on account of abolition of Octroi and Zilla Tax. During the financial year 2018-19, the provincial share in the divisible pool was Rs.2,242.983 billion. Accordingly, the amount of said grant-in-aid comes to Rs.14.804 billion and the same has been paid to the Government of Sindh during FY-2018-19. Out of total Grant-in-Aid, Rs.7.404 billion was paid to the Government of Sindh during the period under report.

GENERAL SALES TAX ON SERVICES

4.1 General Sales Tax on Services (GSTS)

4.1.1 As per Article 8 of the 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 Provincial Governments have established their own Revenue Agencies, and started collecting GST on Services at their own.

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. The projections regarding tax efforts recommended by the NFC were as follows:

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

(As % of GDP)

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

5.2.2 As against the above recommended path, the tax receipts of Federal and Provincial Governments during F.Y.2018-19 are as follows:

Table-XIII: Tax Receipts by the Federal and Provincial Governments

(Rs. in billion)

	B.E. 2018-19	Tax Receipt upto June, 2019	(%) over B.E.
Federal	4,888.645	4,071.619	83%
of which FBR Receipts	4,435.000	3,829.469	86%
Provinces	523.086	402.492	77%
Punjab	275.784	192.878	70%
Sindh	213.268	177.873	83%
Khyber Pakhtunkhwa	23.823	20.285	85%
Balochistan	10.211	11.456	112%

Note: Detail of provincial tax and non-tax receipt is at **Annex-II.**

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

MAJOR INITIATIVES TAKEN BY FBR

The poverty alleviation, provision of education and health to all, advancement in science and technology and protection of environment and achieving of such other goals would largely depend on sufficient tax revenues in the government exchequer. The Government of Pakistan is trying hard to enhance its tax revenues. In this regard, the government has introduced various reforms to make FBR a modern and efficient organization for optimization of tax revenues while promoting taxpayers' friendly environment in the country.

The following steps are being taken by the Government to enhance revenue collection during the remaining months of the current financial year (2018-19):

1. Strict enforcement and monitoring

2. Measures for broadening of tax base and documentation of economy

3. Deployment of technology to identify risk areas to support risk based audit

4. Higher revenue growth through improved compliance

5. Enhancement of Enforcement efforts

Current Initiatives

6. Identifying and check evasion by High Net worth Individuals

7. Addressing Tax Evasion in Tobacco Industry by implementation of Tobacco Track & Trace System

8. Plaza Mapping at Lahore, Karachi and Islamabad

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

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

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

12. Implementation of Tobacco Track & Trace System

13. Resolving pending litigation

14. Collection of pending arrears identified as collectable arrears

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

16. Automation of Processes to facilitate trade including projects such as National Single Window (NSW), National Targeting Center (NTC), Integrated Trade and Transit Management System (ITTMS) and Web Based One Customs Global (WeBOC-Glo)

17. Electronic Data Interchange (EDI) Agreement with China to curb mis-declaration and under-invoicing.

Government of Punjab

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

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

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

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

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

Government of Sindh

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

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

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

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

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

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

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

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

Government of Khyber Pakhtunkhwa

STEPS/MEASURES TAKEN UNDER ARTICLE 9(2) OF THE PRESIDENTIAL ORDER NO. 5 OF 2010.

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

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

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

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

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

Government of Balochistan

1. Government of Balochistan in the Finance Act, 2019 revised and rationalized various taxes as part of it's strive to expand its revenue base, with the spirit of 18th Constitutional Amendment.

2. Initiatives to bring Board of Revenue and Excise & Taxation Department under automation system, are in hand.

3. Public Financial Management Reforms Unit has been set up in the Finance Department aimed at assisting revenue generating departments to review its existing tax collection mechanism and suggesting reforms, tax policy formulation, implementation and monitoring.

4. Balochistan Revenue Authority (BRA) is being strengthened. Efforts are underway to turn the BRA into an efficient & effective organization.

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

6. Viability Gap Fund and Project Development Fund have been earmarked to facilitate investment initiatives under Public Private Partnership in the province.

5.3: **Fiscal Discipline**

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

Federal Government

i) To provide for regulating the custody of the Federal Consolidated Fund and to give elaborate mechanism of public finance management, the Public Finance Management Act, 2019 has been enacted by the Parliament with aim to strengthen management of public finances with the view to improving definition and implementation of fiscal policy for better macroeconomic management, to clarify institutional responsibilities related to financial management, and to strengthen budgetary management; further

ii) the actual deficit in Financial Year 2018-19 stood at 8.9% of GDP. The main reasons for increase in deficit is shortfall in FBR and other revenues, increase in interest payments, pay & pension and PSDP spending. The present government is taking the following steps which are pivotal for reducing fiscal deficit during CFY 2019-20:-

- No Supplementary Grants have been released by Ministry of Finance up-to the end of 1st quarter (July-September 2019);
- All cases of Supplementary Grants/Technical Supplementary Grants are approved by the Federal Cabinet through ECC. The Federal Cabinet has directed all Divisions/Departments to discourage Supplementary Grants;
- There is a complete ban on purchase of all type of vehicles;
- Ban on creation of new posts except those required for development projects;
- Entitlement of periodical; magazines, newspapers etc of entitled officers will remain restricted to only one;

- The delegation for foreign visits are restricted;
- All Principal Accounting Officers (PAOs), have been asked to ensure rationalization of utility consumption, purchase of assets etc;
- Revenue collection & expenditure are being monitored on monthly basis;
- Austerity measures on entertainment and gifts remains in force; and
- Effective measures are being taken to enhance the overall revenue collection.

Based on the above measures, the present government has been trying to restrict budget deficit.

Government of Punjab

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

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

signed a Tri-partite Agreement with the State Bank of Pakistan and 1-Link to launch a system of electronic payment of taxes and non-tax receipts through online as well as alternative delivery channels (ADCs) such as ATMs, Mobile Banking etc. Under this agreement both electronic and physical mediums in 27 commercial banks across Pakistan can be utilized by taxpayers to initiate a transaction under the bill payment system (BPS).

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

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

Government of Sindh

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

Government of Khyber Pakhtunkhwa.

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

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

iii) The cash balances of KP Accounts maintained with State Bank of Pakistan remained in surplus over the period of the report.

Government of Balochistan

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

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

3. Delegation of Financial Powers 2019 and Public Procurement Regularity Authority (PPRA) rules have been reviewed and updated in the context of improving efficiency and ensuring fiscal discipline in the province.

Annex-I

REGISTERED No. M - 302 / L.-7646

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ISLAMABAD, MONDAY, MAY 10, 2010

PART I

Acts, Ordinances, President's Orders and Regulations

GOVERNMENT OF PAKISTAN

MINISTRY OF LAW, JUSTICE AND PARLIAMENTARY AFFAIRS

Islamabad, the 10th May, 2010

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

PRESIDENT'S ORDER No. 5 of 2010

AN

ORDER

to provide for distribution of revenues and certain grants

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

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

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

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

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

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

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

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

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

(a) taxes on income;

(b) wealth tax;

(c) capital value tax;

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

(e) export duties on cotton;

(f) customs-duties;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ASIF ALI ZARDARI,
President.

SYED SULTAN AHMED,
Senior Joint Secretary.

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Annex-II

Provincial Tax Receipts – 2018-19 (June Final)

Rs in million

Function Code	DESCRIPTION	Punjab		Sindh		Khyber P. Khwa		Balochistan	
		B.E	Actual	B.E	Actual	B.E	Actual	B.E	Actual
B	**Tax Revenue**	**275,784**	**192,877**	**213,268**	**177,873**	**23,823**	**20,285**	**10,211**	**11,456**
B01	**Direct Taxes**	**1,770**	**0,881**	**16,553**	**7,330**	**838**	**5,334**	**689**	**979**
B' 011	Tax On Income	1,650	575	2,000	578	110	80	25	25
B' 013	Property Tax	12,505	2,818	7,680	2,849	488	1,156	220	213
B' 014	Land Revenue	16,680	14,310	650	226	2,550	2,862	312	312
B' 015	Workers Welfare Tax	-	-	-	-	-	-	-	-
B' 016	Tax on Profession, Trades and Callings	935	798	473	408	350	398	4	28
B' 017	Capital Value Tax on Imoveable Property	-	172	5,750	3,269	340	455	125	74
B018&19	C.V.T(Moveable property)	-	1,209	-	0	-	382	4	328
B02	**Indirect Taxes**	**233,088**	**167,544**	**136,085**	**115,496**	**18,255**	**13,801**	**9,435**	**10,454**
B' 023	Sales Tax on Svc GST	151,575	90,451	110,000	93,168	15,000	10,357	7,000	8,795
B' 026	Provincial Excise	6,651	3,607	6,000	5,059	30	60	628	549
B' 027	Stamps Duties	56,835	58,562	12,075	9,935	1,230	1,540	459	361
B' 028	Motor Vehicles	18,027	14,923	8,010	7,334	1,995	1,845	1,348	748
B' 029	Sale of Opium	-	1	-	-	-	0	-	-
B03	**Indirect Taxes-Others**	**10,925**	**4,452**	**60,630**	**55,046**	**1,730**	**1,150**	**86**	**23**
B030	Indirect Taxes-Others	10925.3	4451.975	60630	55046.345	1730	1149.679	86.49	22.723

ANNEX-III

ECONOMY/AUSTERITY MEASURES (2018-19)

A) There shall be complete ban on:

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

b. Treatment abroad on Provincial Government's expense.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ANNEX-IV

RELEASE POLICY

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

(A) DEVELOPMENT EXPENDITURE:

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

2.	New approved schemes	25% of the allocated funds will be released to new schemes of each sector on production of Administrative Approval (AA). Remaining allocations for such schemes will be released as and when demanded by the Administrative Department on production of utilization report and on case to case basis.
3.	Schemes with 'R' status in ADP 2018-19	Funds will be released to the schemes of 'R' status in ADP 2018-19 on the basis of notified Revised Administrative Approval.

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

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

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

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

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

9. No re-appropriation shall be made against those schemes wherefrom funds are re-appropriated to other schemes,

during current financial year, unless otherwise justified by the P&D Department.

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

(B) CURRENT EXPENDITURE - PROVINCIAL

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

NOTE:

1. Medical Charges*:- The funds released under object A01274-Medical Charges shall be utilized by the concerned sanctioning authorities only upto the limit of medical re-imbursement claims i.e Rs.30,000/- where verification / authentication by Director General, Health Services, Khyber Pakhtunkhwa is not required under the prevailing rules/policy instructions. The incurrence of expenditure against the remaining claims shall be authorized by Finance Department on case to case basis as usual.

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

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

(C) **(DEVELOPMENT & CURRENT EXPENDITURE - LOCAL GOVERNMENTS**

i. **DEVELOPMENT EXPENDITURE (LOCAL GOVERNMENT)**

Development share of District Development Funds shall be transferred to respective Local Governments on quarterly instalment basis, which have not been provided development funds during financial year

2018-19. Such Districts, TMAs and VCs/NCs which have been provided development budget during last financial year (2017-18), shall be facilitated with funds subject to utilization of 60% development funds of last financial year.

ii. CURRENT EXPENDITURE(LOCAL GOVERNMENT)

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

(D). GRANT TO LOCAL COUNCILS

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 on need basis 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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