



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

(January — June, 2021)

Government of Pakistan
NATIONAL FINANCE COMMISSION SECRETARIAT



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GOVERNMENT OF PAKISTAN
NATIONAL FINANCE COMMISSION SECRETARIAT

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, 2021 was approved by the Federal and Provincial Finance Ministers for laying before both Houses of the Parliament and Provincial Assemblies.

6. The Bi-Annual Report contains total FBR collections during January – June, 2021, details of Non Divisible Pool Components, Vertical Distribution of shares between Federal and Provincial Governments, Horizontal Distribution of shares between the Provinces and detail of Grant-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 for maintaining fiscal discipline at Federal and Provincial level during the reported period.

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Islamabad, the 26th January, 2022

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EXECUTIVE SUMMARY

This 2nd Biannual Monitoring Report on implementation of 7th NFC award covers the period from January to June, 2021 of Financial Year 2020-21. Total tax collection as reported by FBR remained Rs. 2,532.358 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.2,418.797 billion. The Provincial share comes to Rs.1,390.808 billion, leaving a balance of Rs.1,027.989 billion for the Federal Government. The Provincial share has been distributed as: Rs.719.604 billion to Punjab (51.74%), Rs.341.443 billion to Sindh (24.55%), Rs.203.336 billion to Khyber Pakhtunkhwa (14.62%) and Rs.126.424 billion to Balochistan (9.09%). Khyber Pakhtunkhwa received Rs.24.432 billion on account of War on Terror.

During the period January – June 2021, Rs.11.585 billion, Rs.8.405 billion and Rs.22.243 billion were collected on account of Royalty on Crude Oil, Gas Development Surcharge (GDS) and Royalty on Natural Gas, respectively which were transferred to the Provinces. Similarly, an amount of Rs.4.958 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 in the net proceeds of the divisible pool, as compensation for losses on account of abolition of Octroi and Zilla Tax. Accordingly, an amount of Rs. 9.179 billion was released to Government of Sindh on this account.

INTRODUCTION

1.1 The NFC Award 2009 has been in operation 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 before both Houses of the Parliament and the Provincial Assemblies.

1.3 The implementation status of the above provisions of the President’s Order, i.e., Distribution of Revenues and Grants-in-Aid Order, 2010, is given in the following chapters.

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

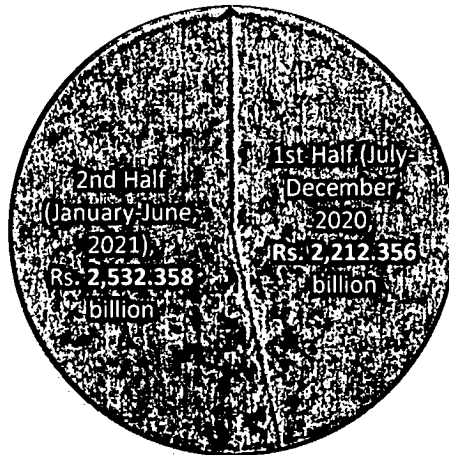
2.1.1 Federal Board of Revenue (FBR) reported the following tax collection for Financial Year 2020-21:

TABLE-I: Total FBR Collection during FY: 2020-21

(Rs. in billion)

A	Provisional collection reported on fortnightly basis during FY, 2020-21.	4,640.092
B	Arrears worked out on receipt of final reconciled collection for F.Y. 2019-20 reported in F.Y. 2020-21	104.622
C	Total Collection reported during the FY 2020-21 (A+B)	4,744.714

2.1.2 The releases to the Provinces during the Financial Year 2020-21 were made on the basis of FBR collection amounting to Rs. 4,744.714 billion. Out of this collection, Rs. 2,212.356 billion was reported during first half (July to December, 2020) and Rs.2,532.358 billion was reported during second half (January to June, 2021) of the Financial Year 2020-21. The following chart shows a snapshot of collection during the two halves of the FY 2020-21;



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.4,546.864 billion against total tax receipts of Rs.4,744.714 billion. Gross divisible pool taxes for 2nd half of F.Y.2020-21 (January–June, 2021) come to Rs. 2,476.630 billion. A detailed breakup of non-divisible pool components is given below:

TABLE-II: Details of Non-Divisible Pool Components

(Rs. in billion)

	FY 2020-21	2 nd half 2020-21
Total Collection FBR Receipts	4,744.714	2,532.358
Less Non-Divisible Pool Components	197.850	55.728
WWF	19.895	4.793
GST on Services	20.012	0.929
Excise Duty on Natural Gas	9.584	5.060
Income Support Levy	-	-
Exp. Development Surcharge	8.519	4.946
Refund through Supplementary Grant	139.840	40.000
Gross Divisible Pool Tax	4,546.864	2,476.630

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 2020-21 and 2nd half of Financial Year -2020-21 (Jan-June, 2021) are as follows:

TABLE-III: Vertical Distribution of Share For F.Y-2020-21

(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	4,546.864	☆62.280	4,484.584	44.846	4,439.738	2,552.849
Income Tax	1,681.154	33.623	1,647.531	16.475	1,631.056	937.857
Capital Value Tax	0.636	0.006	0.630	0.006	0.623	0.358
Sales Tax (Excl. GST on Services)	1,867.107	18.671	1,848.436	18.484	1,829.952	1,052.222
Federal Excise (Excl. ED on NG)	266.773	2.668	264.105	2.641	261.464	150.342
Customs (Excl. Export Dev. Surcharge)	731.194	7.312	723.882	7.239	716.643	412.070

☆ 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.

TABLE-IV: Vertical Distribution of Share For 2nd Half FY-2020-21 (January – June, 2021)

(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	2,476.630	☆33.401	2,443.229	24.432	2,418.797	1,390.808
Income Tax	863.424	17.268	846.156	8.462	837.694	481.674
Capital Value Tax	0.165	0.002	0.163	0.002	0.162	0.093
Sales Tax (Excl. GST on Services)	1,040.645	10.406	1,030.239	10.302	1,019.936	586.463
Federal Excise (Excl. ED on NG)	151.069	1.511	149.558	1.496	148.063	85.136
Customs (Excl. Export Dev. Surcharge)	421.327	4.213	417.114	4.171	412.943	237.442

☆ 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 2020-21 has been worked out as follows:

TABLE-V: Horizontal Distribution of Share For (FY-2020.21)

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
	(51.74%)	(24.55%)	(14.62%)	(9.09%)	100%
Divisible Pool Taxes	1,320.844	626.724	373.227	232.054	2552.849
Income Tax	485.247	230.244	137.115	85.251	937.85
Capital Value Tax	0.185	0.088	0.052	0.033	0.358
Sales Tax (Excl. GST on Services)	544.420	258.321	153.835	95.647	1052.222
Federal Excise (Excl. ED on NG)	77.787	36.909	21.980	13.666	150.342
Customs (Excl. EDS)	213.205	101.163	60.245	37.457	412.070

2.4.2 The table below presents the horizontal distribution of share for the 2nd half of FY 2020-21:

**TABLE-VI: Horizontal Distribution of Share For 2nd Half of
FY-2020-21 (Jan - Jun, 2021)**

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
	(51.74%)	(24.55%)	(14.62%)	(9.09%)	100%
Divisible Pool Taxes	719.604	341.443	203.336	126.424	1,390.808
Income Tax	249.218	118.251	70.421	43.784	481.674
Capital Value Tax	0.048	0.023	0.014	0.008	0.093
Sales Tax (Excl. GST on Services)	303.436	143.977	85.741	53.309	586.463
Federal Excise (Excl. ED on NG)	44.049	20.901	12.447	7.739	85.136
Customs (Excl. EDS)	122.852	58.292	34.714	21.583	237.442

2.4.3 Khyber Pakhtunkhwa has been paid an amount of Rs.418.073 billion during F.Y.2020-21. Out of this an amount of Rs.227.768 billion was paid during the period under report i.e January–June, 2021. 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 2020-21	2nd Half of FY 2020-21
Share in the Divisible Pool (14.62%)	373.227	203.336
1% War on Terror	44.846	24.432
Total:-	418.073	227.768

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 be made up by the Federal Government from its own resources. The position of additional transfers out of the Federal resources depicted as follows:

(Rs. in billion)

Particulars	FY 2020-21	2nd Half of FY 2020-21
Share in the Divisible Pool (9.09%)	232.054	126.424
Additionality paid	19.610	(0.59)
Total:-	251.664	125.832

It may be added that the above releases of the entire Financial Year 2020-21 stand 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:2020-21 Full Year	3.476	6.769	14.659	0.167	25.071
2nd Half FY: 2020-21 (Jan-June, 2021)	1.772	2.434	7.212	0.167	11.585

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.2020-21**

(Rs. in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	1.677	29.861	7.841	7.363	46.742
Gas Development Surcharge	1.265	19.082	2.697	2.418	25.462

**TABLE-X: Amount of Royalty on Natural Gas and GDS in 2nd Half
Of FY.2020-21 (January - June, 2021)**

(Rs. in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.808	13.826	4.559	3.05	22.243
Gas Dev. Surcharge	0.106	7.653	0.646	0	8.405

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)

Period	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
FY:2020-21 Full Year	0.324	5.988	1.514	1.566	9.392
2 nd Half FY:2020-21 (Jan-Jun, 2021)	0.163	3.159	0.848	0.787	4.957

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 2020-21, the provincial share in the divisible pool was Rs. 2,552.849 billion. Accordingly, the amount of said grant-in-aid comes to Rs.16.849 billion; the same has been paid to the Government of Sindh during Financial Year 2020-21. Out of total Grant-in-Aid, Rs.9.179 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 desired.

4.1.2 All Provincial Governments have established their own Revenue Agencies and started 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-XII: GST Collection by the Provinces

(Rs. in billion)

	B.E. 2020-21	Receipt upto June, 2021	(%) over B.E.
Provinces	289.350	292.362	101.04%
Punjab	121.000	138.409	114.39%
Sindh	135.000	121.741	90.18%
Khyber Pakhtunkhwa	19.850	19.362	97.54%
Balochistan	13.500	12.850	95.19%

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.

Steps taken for Streamlining Tax Collection by Federal and Provincial Governments

Federal Government

MAJOR INITIATIVES TAKEN BY FBR

The government is trying to enhance its tax revenues through appropriate policies and measures. In this regard, various reforms have been introduced to make FBR a modern and efficient organization for optimization of tax revenues. The recent measures taken by FBR are given below:

Inland Revenue:

1. **Utilization of data obtained from DISCOs & Gas Companies, Banks:** More than 650,000 notices have been issued on the basis of data obtained from DISCOs and in lieu of these notices 129,541 returns have been enforced so far. Number of income tax return filers for Tax Year 2020 has crossed 3.0 million mark.
2. **High Net-Worth Individuals (action through third party data utilization):** In order to develop 360 degree view of tax payers, data sources like banks, vehicles and real estate transactions were captured and a Data Bank was developed. Based on this data bank, notices to more than 200,000 high net-worth un-registered persons were issued.
3. **Point of Sales (POS) Integration of Tier-1 retailers:** FBR embarked on a plan to integrate all sales outlets of tier-1 retailers with FBR's central computerized system.
4. **Track & Trace System:** FBR initiated the implementation of Track and Trace System for specified goods/ products i.e. Tobacco, Cement, Sugar, Fertilizer and Beverages imported into or manufactured in Pakistan.
5. **IREN and Joint Anti-smuggling Field Intelligence Exercise:** Through the establishment of Inland Revenue Enforcement Network (IREN) to check smuggling and counterfeit products, Inland Revenue Service and Pakistan Customs Service joined hands for anti-smuggling field intelligence exercise.

6. **Risk based Audit:** FBR developed a centralized Risk based Audit Management System (RAMS) for selection of audit cases centrally on the basis of pre-determined risk parameters. Selection on scientific matrix allowing allocation and distribution of weightage to different parameters in Risk Grid segregates the potential and high-risk cases for audit through parametric computer balloting. Subsequently, in September 2020, through Audit Policy, 2019, a total of 12,533 cases were selected for audit for Tax Year 2018.
7. **Transformation of traditional audit processes through e-Audits:** FBR is also moving for instituting Data analytics for E-Audit through transformation in the traditional audit processes. In this system, the correspondence between taxpayers and the tax department will be entirely through electronic mode till the conclusion of audit proceedings. The process will be technology-driven with least human interference and system based controls for ensuring transparency of the process.
8. **Automation of audit monitoring system:** A software solution is under process to provide continuous monitoring of the audit cases with sufficient documentation and assistance to the auditors.
9. **Expeditious disposal of Litigation:** Legal Wing has initiated expeditious disposal of litigation cases especially in cases where sizeable revenue is involved.

Customs:

1. The collection of customs duty mainly rely on valuation/assessment of imported goods. For proper valuation/assessment of goods, following steps have been taken:-
 - (i) At present total 427 Valuation Rulings (VRs) are in field covering 21% of duty/taxes collection. Furthermore these VRs cover around 45-50% of the dutiable imports. In Financial Year 2020, 64 Valuation Rulings were revamped resulting in Rs.18 billion additional revenues. Revamping in this regard is in process which will further contribute towards increased revenue collection.
 - (ii) The Electronic Data Exchange (EDE) data of China is being used for minor analysis which resulted in appropriate valuation of goods.

- (iii) Use of “structured description” in Customs Computerized Clearance System has been introduced which will help appropriate valuation.
2. Following legal provisions have been made in Customs Act to determine correct value of imported goods and increase in revenue:-
- (i) Heavy penalties upto Rs.500,000/- to be imposed for missing invoice as compared to earlier minimum penalties of Rs. 5,000/.
 - (ii) Shipping agents/freight forwarders are now required to provide master bill of lading to mask any origin of goods.
 - (iii) International references and accredited international publications like Reuters (Palm fatty acids etc), IHT market (Hydrogen Per oxide), ICIS, LME etc. have been made basis of assessment. These publications provide up-to-date and real time data/value of imported goods.
3. Rationalization of customs tariffs has been initiated through active collaboration with Ministry of Commerce, National Tariff Commission and different trade bodies etc. to promote trade and investment and consequently growth in revenues.
4. Further automation of Customs procedures / processes is underway. In this regard, building of National Single Window (WINPAK) for increased efficiency, timely/informed decision making and integrating all stakeholders i.e. private sector and government, will create a marked difference in coming years.
5. Providing facility of e-payments, greater induction of technology to improve trade/ logistic performance indicators, a recent example is deployment of e-payments platform.
6. Borders are being effectively managed and necessary instructions regarding zero-tolerance anti-smuggling policy have been issued to all the Customs field formations.

- (vi) Security featured MVR Smart Cards have also been introduced which replace the traditional Motor Vehicle Registration books.
- (vii) Similar to Motor Vehicle, next tax targeted to be brought online through the mobile app is Urban Immovable Property Tax (UIPT).

Government of Khyber Pakhtunkhwa

- i. The Government of Khyber Pakhtunkhwa, for economic development, has eliminated/exempted several taxes/fees, including Capital Value Tax and Stamp Duty. The Departments shown their good progress for the financial year 2020-21 in the revenue collection and an amount of Rs. 59.495 billion was realized on account of Provincial Own Receipts (which is 14% in excess of the target), Tax Revenue Rs. 33.553 (billion) & Non-Tax Revenue Rs. 25.941 (billion). The Provincial Revenue from January to June 2021 (second half) for financial year 2020-21 has been realized Rs. 35.571 billion.
- ii. The total collection on account of Sales Tax on services collected by Khyber Pakhtunkhwa Revenue Authority (KPRA) for Financial Year 2020-21 was Rs. 19.356 billion, with a growth of 14% over previous Financial Year (2019-20) of Rs. 16.966 billion. The collection on account of Sales Tax on Services during second half of Financial Year 2020-21 (January to June) is Rs. 9.425 billion.

Government of Balochistan

- a) Government of Balochistan enacted Balochistan Infrastructure Development Cess Act, 2019 with a purpose to levy infrastructure cess on goods entering and leaving the province from or for outside the country through rail, road, air and sea for development and maintenance of infrastructure of the province. However, several cess payers (tax payers), aggrieved by certain provisions of the Act, ibid filed petitions against the ibid Act of 2019 in the Hon'ble Balochistan High Court. Accordingly, the Government of Balochistan took a holistic review of the 2019 Act with a purpose to bring the new law in a more refined shape. Consequently, a new bill under the title of " Balochistan Development and Management of Infrastructure Cess Act, 2021" is legislated and notified for the purposes as stated therein.

- b) In order to increase the ratio of provincial own revenues, the Government of Balochistan has also undertaken certain initiatives which include but not limited to introduction of automation of certain potential provincial taxes streamlining their legal frameworks, tax enforcement and administrative restructuring etc.

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:-

Steps taken by Federal and Provincial Governments for Fiscal Discipline

Federal Government

- 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 the governments 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 strategy to accordingly reduce their budgetary outlay for having reasonable level of surplus by the end of Financial Year.

During 2nd half of 2020-21, the overall/consolidated fiscal deficit has been contained to 4.6% of GDP as against 5.8% of GDP for the same period of last Financial Year 2019-20. For restricting the fiscal deficit during the CFY 2021-22 at 6.3 % of GDP, following steps are being taken by the Federal Government: -

- i. By better budget management, efficient cash management including TSA empowering Principal Accounting Officers with CF&AOs and Chief Internal Auditors, effective management of development projects and assets, transference reporting etc. The Federal Government has improved its financial management.
 - ii. No Supplementary Grants/additional resources have been allowed except COVID and some subsidy related payments during Current Financial Year 2020-21. Non-allowing the Supplementary Grant will be continued;
 - iii. Supplementary Grants allowed in such cases with pre approval of the Federal Cabinet;
 - iv. No Expenditure, in any head of account, shall be incurred over & above the limit imposed by the Finance Division;
 - v. Complete ban on purchase of all type of vehicles (excluding motorcycles) both for current as well as development expenditure;
 - vi. Ban on creation of new posts except those required for development projects and approved by the competent authority;
 - vii. Entitlement of periodical, magazines, newspapers etc of entitled officers is restricted to only one;
 - viii. All Principal Accounting Officers have been asked to ensure rationalization of utility consumption, purchase of assets, repair and maintenance and all other operational expenditures shall be kept at bare minimum level while remaining within the budgetary allocation for the financial year.
- b) Provincial Governments has also been advised to promulgate Public Finance Management Act to enforce fiscal discipline at their end. They may also adopt the austerity measures adopted by the Federal Government.

Government of the Punjab

- a) **Performance of Own Source Revenue (OSR):** Despite tax reliefs and concessions, satisfactory growth in OSR has been observed during this period. An amount of Rs.234.223 billion has been

collected up to June, 2021 as provincial tax receipts, with a growth rate of 19% compared to the same period of LFY. Further, an amount of Rs.119.543 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 tax rates.

- b) **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.
- c) **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 the digital transactions of Own Source Revenue significantly and collected Rs.30 Billion plus from Rs.6.5 Million plus transactions in June 2021. A total of 10 departments and 21 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, Workers Welfare Fund, PSCA Challans, eAbiana, eAuction, LTC Route Permit and PEPRIS.
- d) **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 CFY. Furthermore, the request for supplementary grants, if unavoidable, were placed before Provincial Cabinet/Standing Committee of the Cabinet on Finance & Development (SCCFD) for consideration. In this regard Government of Punjab has attempted to impose 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 upon the approval of competent authority devised a release policy for current and development expenditure for the F.Y 2020-21 (**Annex-III**).

Government of Balochistan

- a) The existing governmental receipts collection system is manual, time consuming, inefficient and non-transparent. Therefore, to overcome the stated limitations, Finance Department, with the approval of Government of Balochistan, has introduced e-Payment system under the title of “Alternate Delivery Channels System (ADCS)” which has been developed in collaboration with State Bank of (SBP) and 1-LINK (Pvt) Limited. This ADCS e-payment will ensure digital / electronic collection of all types of governmental receipts and will further bring huge efficiency gains by ensuring same day settlement, generating paperless e-scrolls for the designated central District Accounts Office and Computerized Payment Receipts (e-CPRs) for taxpayers. After successful implementation of ADCS e-Payment for GOB, the taxpayers/feepayers are now paying GoB’s taxes, duties, fees and other levies through internet banking, mobile banking, 15,000 plus ATMs and Over-the-Counters (OTC) facility of around 16,000 branches of commercial banks across the country.
- b) Earlier Government of Balochistan enacted Balochistan Public Finance Management Act, 2020 through Balochistan Finance Act, 2020. To achieve objectives of further strengthening management of public finances, effective implementation of fiscal policy clarification of institutional responsibilities and to strengthen budgetary management, the Government of Balochistan introduced certain amendments in the enacted Balochistan Public Finance Management Act, 2020 through Balochistan Public Finance Management (Amendment Act), 2021.

Conclusion

As this report has shown, resource 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 diluted impact of these measures. Nevertheless, adoption of austerity measures to curtail unnecessary expenditures, as outlined in the report, has proved to be effective.



EXTRAORDINARY
PUBLISHED BY AUTHORITY

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;

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 billion 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

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

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.

(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.

**ECONOMY/AUSTERITY MEASURES FOR FINANCIAL YEAR
2020-21 CIRCULATED VIDE FINANCE DEPARTMENT
LETTER NO. BO./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 fulfilments of criteria as circulated by Finance Department.
4. **Purchase or Vehicles.** A committee headed by Secretary Finance, Secretary Administration, Secretary P&D and Secretary of the concerned Department as members shall accord approval 10 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 10 revenue Clearance certificate by Finance Department.
5. **There shall be a complete ban on:**
 - 1) Participation in workshops/ seminars and training abroad involving provincial funds:
 - a) Holding seminar and Workshops in Five Star Hotels involving Provincial funds;
 - b) Treatment abroad on Provincial Government's expense.

6. All Administrative Secretaries and Heads of Autonomous I 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 incur expenditure in anticipation of additional or supplement grants.
13. No developmental scheme involving creation of posts and purchase of vehicles, Mechanical & 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) or 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 release 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 ensure 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.

**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 release 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	
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 ease to case basis through re-appropriation as per Guidelines contained in Finance Department's circular letter No.1 5 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 AOf274-Medicat Charges shall be utilized by the concerned sanctioning authorities only up-to the limit of medical re-imburement 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 retaining 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 competent 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 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 Bank Statement by the concerned autonomous entity after unconditional releases of quarter. All Grants in Aid 10 Bar Councils and Press Clubs shall be released as per approved criteria. Any funds over and above approved criteria shall be released with the approval of Chief Minister, Khyber Pakhtunkhwa.

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.

(B) 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.	Districts 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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