2ND BIANNUAL MONITORING ON THE IMPLEMENTATION OF NFC AWARD

(January – June 2015)

Government of Pakistan
National Finance Commission Secretariat

2ND BIANNUAL MONITORING ON THE IMPLEMENTATION OF NFC AWARD

(January – June 2015)

Government of Pakistan
National Finance Commission Secretariat

F.No.7(2)NFC/2015

ISLAMABAD
31st December, 2015

SENATOR MOHAMMAD ISHAQ DAR
MINISTER FOR FINANCE, REVENUE,
ECONOMIC AFFAIRS, STATISTICS AND
PRIVATIZATION

LETTER OF TRANSMITTAL

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

The 7th National Finance Commission 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). 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."*

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.

The bi-annual monitoring report for the period from January to June, 2015 was approved by the Finance Ministers in the meeting held on 31st December, 2015, at Islamabad for laying before both Houses of the Parliament and Provincial Assemblies.

(Senator Mohammad Ishaq Dar)

Contents

LIST OF TABLES

EXECUTIVE SUMMARY

This 2nd Biannual Monitoring Report on implementation of 7th NFC award covers the period from January to June 2015. Total tax collection as reported by FBR remained Rs.2,523.563 billion for financial year 2014-15, out of which Rs.1356.50 billion was related to the period under report. After subtracting non-divisible pool components and 1% each as collection charges and additionality for KPK on account of War on Terror (WoT), the net divisible pool comes to Rs.1303.65 billion. The Provincial share comes to Rs.749.60 billion, leaving a balance of Rs.554.05 billion for Federal Government. The Provincial share has been calculated as Rs.387.84 billion to Punjab (51.74%), Rs.184.03 billion to Sindh (24.55%), Rs.109.59 billion to KPK(14.62%) and Rs.68.14 billion to Balochistan (9.09%). KPK and Balochistan got Rs.13.15 billion and Rs. 2.46 billion respectively on account of War on Terror and additionality.

On account of Royalty on Crude Oil, Gas Development Surcharge and Royalty on Natural Gas an amount of Rs.11.929 billion, Rs. 11.304 billion and Rs.18.865 billion respectively was collected and transferred to the provinces during Jan-June 2015. Similarly. An amount of Rs. 5.904 billion on account of excise duty on Natural Gas have been transferred to provinces during the report period.

The Province of Sindh is entitled to receive grant-in-aid equivalent to 0.66% of the provincial share 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. 4.569 billion on this account was released to Government of Sindh accordingly. FBR is collecting GST on Services for Balochistan Province only. An amount of Rs.0.840 collected and transferred on behalf of Balochistan during F.Y 2014-15.

INTRODUCTION

The NFC Award 2009 came into force with effect from FY 2010-11 through a Presidential Order ***"Distribution of Revenues and Grants-in-Aid Order 2010" (Annex-I)***. The main responsibilities entrusted to the Federal and Provincial Governments through this Award are:

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

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

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

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

e. Achieving 15% tax to GDP ratio by the terminal year of the Award i.e. 2014-15. To achieve this target, a path 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).

Article 160(3B) of the Constitution provides that the Federal and Provincial Finance Ministers would monitor implementation of the Award biannually and lay a report in this regard in both Houses of the Parliament and the Provincial Assemblies. This report presents details of the implementation status of the above provisions of the President's 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.

1.1: FBR Tax Receipts

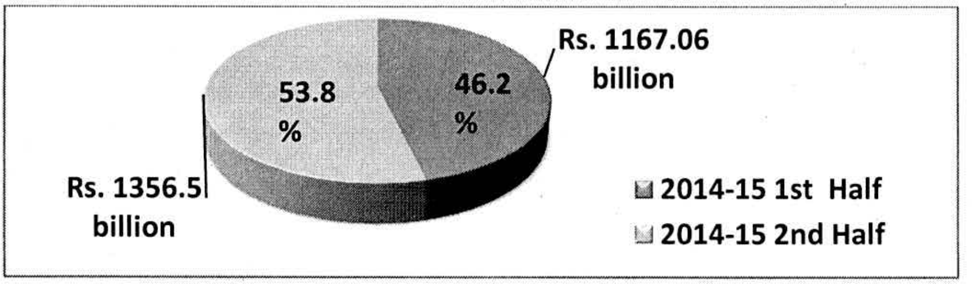
Federal Board of Revenues (FBR) reported the following tax collection for financial year 2014-15:

TABLE-I: Total FBR Collection during FY.2014-15

(Rs. in Billion)

A	Provisional collection reported on fortnightly basis during FY 2014-15	2411.750
B	Arrears worked out on receipt of final reconciled collection for FY 2013-14 reported in FY 2014-15	111.813
C	**Total Collection reported during FY 2014-15 (A+B)**	**2523.563**

The releases to the Provinces during the financial year 2014-15 were made on the basis of FBR collection amounting to Rs.2,523.563 billion. Out of this collection, Rs.1167.06 billion was reported during first half (July to December, 2014) and Rs.1356.50 billion was reported during second half (January to June, 2015) of the financial year 2014-15. The following chart shows a snapshot of collection during the two halves:



1.2 Distribution of Divisible Pool Taxes

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. 2467.09 billion against total tax receipts of Rs. 2523.56 billion. Gross divisible pool taxes for 2nd half of F.Y.2014-15 (January–June, 2015) comes to Rs.1330.15 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 2014-15	2nd half of 2014 -15
Total Collection FBR Receipts	**2523.56**	**1356.50**
Less Non-Divisible Pool Components	**56.47**	**26.35**
WWF	24.65	9.43
GST on Services	5.21	3.34
Excise Duty on Natural Gas	11.37	5.72
Income Support Levy	0.03	01
Exp. Development Surcharge	5.50	2.51
Income Tax Paid out of the Federal Consolidated Fund	9.71	5.34
Gross Divisible Pool Tax	**2467.09**	**1330.15**

1.3: Vertical Distribution

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 than 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 2014-15 and 2nd half of FY (Jan-June 2015) are as follows:

TABLE-III: Vertical Distribution of Share For F.Y-2014-15

(Rs in billion)

	Receipts	Collection Charges (1%)	Net Div. Pool Taxes	1% WoT for Khyber P'Khwa	Balance Net Div. Pool	Prov. Share (57.5%)
Divisible Pool Taxes	**2467.09**	**24.75**	**2442.34**	**24.42**	**2417.92**	**1390.31**
Income Tax	961.42	9.71	951.71	9.52	942.19	541.76
Wealth Tax	-0.01	0	-0.01	0	-0.01	0
Capital Value Tax	0.92	0	0.92	0	0.92	0.53
Sales Tax (Excl.GST on Services)	1064.36	10.64	1053.72	10.54	1043.18	599.83
Federal Excise (Excl.ED on NG)	145.37	1.45	143.92	1.44	142.48	81.92
Customs(Excl. Export Dev. Surcharge)	295.03	2.95	292.08	2.92	289.16	166.27

TABLE-IV: Vertical Distribution of Share For 2nd Half of FY-2014-15 (January – June, 2015)

(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	**1330.15**	**13.34**	**1316.81**	**13.16**	**1303.65**	**749.60**
Income Tax	528.49	5.34	523.15	5.23	517.92	297.80
Wealth Tax	0.04	0	0.04	0	0.04	0.03
Capital Value Tax	0.42	0	0.42	0	0.42	0.25
Sales Tax (Excl.GST on Services)	553.56	5.53	548.03	5.48	542.55	311.96
Federal Excise (Excl. ED on NG)	86.21	0.86	85.35	0.85	84.50	48.58
Customs (Excl. Export Dev. Surcharge)	161.43	1.61	159.82	1.60	158.22	90.98

1.4: Horizontal Distribution

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 2014-15 has been worked out as follows:

TABLE-V: Horizontal Distribution of Share For FY-2014-15

(Rs. in billion)

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	(100%)	(51.74%)	(24.55%)	(14.62%)	(9.09%)
Divisible Pool Taxes	**1390.29**	**719.34**	**341.32**	**203.26**	**126.38**
Income Tax	**541.76**	280.31	133.00	79.21	49.25
Wealth Tax	**0**	0	0	0	0
Capital Value Tax	**0.52**	0.27	0.13	0.08	0.05
Sales Tax (Excl.GST on Services)	**599.82**	310.35	147.26	87.70	54.52
Federal Excise (Excl. ED on NG)	**81.93**	42.39	20.11	11.98	7.45
Customs (Excl. Export Dev. Surcharge)	**166.26**	86.03	40.82	24.31	15.11

The table below presents the horizontal distribution of share for the second half of FY 2014-15:

TABLE-VI: Horizontal Distribution of Share For 2nd Half of FY-2014-15 (January-June,2015)

(Rs in billion)

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	100%	51.74%	24.55%	14.62%	9.09%
Divisible Pool Taxes	**749.59**	**387.84**	**184.03**	**109.59**	**68.14**
Income Tax	**297.80**	154.09	73.11	43.54	27.07
Wealth Tax	**0.03**	0.01	0.01	0.01	0
Capital Value Tax	**0.25**	0.13	0.06	0.04	0.03
Sales Tax (excl.GST on Services)	**311.95**	161.41	76.59	45.61	28.35
Federal Excise (excl. Excise Duty on NG)	**48.60**	25.14	11.93	7.11	4.42
Customs (excl. Export Dev. Surcharge)	**90.96**	47.07	22.33	13.30	8.27

Article 3(2) of the President's Order also entitles the Province of Khyber Pakhtunkhwa to receive 1% of the net proceeds of undivided divisible pool taxes on account of losses incurred due to War on Terror (WoT). Under this head, Khyber Pakhtunkhwa has been paid an amount of Rs.24.42 billion during FY-2014-15. Out of this amount Rs.13.16 billion was paid during the period under report i.e. January–June, 2015. 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 2014-15**	**2nd Half of FY 2014-15**
Share in the Divisible Pool (14.62%)	203.26	109.59
1% War on Terror	24.42	13.16
Total:-	**227.68**	**122.75**

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. This arrangement for Balochistan remained protected during the currency of the Award, Federal Government based on annual budgetary projections paid an additionality of Rs.14.83 billion out of its own resources during the entire financial year 2014-15. Out of the total amount of Rs. 2.46 billion was paid during the period under report i.e. January–June, 2015:

TABLE-VIII: Addititionality Paid to Government of Balochistan

(Rs in billion)

Particulars	FY 2014-15	2nd Half of FY 2014-15
Share in the Divisible Pool (9.09%)	126.38	68.14
Additionality provided by Federal Government	14.83	2.46
Total:-	**141.21**	**70.60**

It may be added that the above releases of the entire financial year 2014-15 stands reconciled with the Provincial Finance Departments.

STRAIGHT TRANSFERS/GRANTS-IN-AID

2.1: Distribution of Royalty on Crude Oil

Article 5 of the President's Order relates to the distribution of net proceeds of royalty on crude oil. M/o Petroleum and Natural Resources is responsible for collection of this levy, which is reported to Finance Division monthly for onward transfer to provinces. Accordingly, entire net proceeds reported by M/o Petroleum and Natural Resources were distributed amongst the provinces as shown below:

TABLE-IX: Royalty on Crude Oil

(Rs in billion)

Period	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
(FY-2014-15) Full year	4.339	11.204	14.244	0	29.787
2nd half (FY-2014-15) (Jan. – June,2015)	1.669	5.495	4.765	0	11.929

2.2: Distribution of GDS and Royalty on NaturalGas

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

TABLE-X: Total Distribution of Royalty on Natural Gas and GDS For FY.2014-15

(Rs in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	1.210	27.718	3.580	5.971	38.479
Gas Dev. Surcharge	1.590	16.380	3.915	5.306	27.191

TABLE-XI: Amount of Royalty on Natural Gas and GDS in 2nd Half Of FY 2014-15 (Jan-June, 2015)

(Rs in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.539	15.624	1.755	0.947	18.865
Gas Dev. Surcharge	0.657	5.703	1.874	3.070	11.304

As per clause (2) of Article 6, GDS payable to Balochistan, with effect from 01.07.2002 to 30.06.2010, was worked out subject to a maximum of Rs.10 billion, payable in five years. Therefore, Federal Government paid an amount of Rs.6.00 billion to Government of Balochistan by allocating of an amount of Rs.2.00 billion per annum during F.Y.2010-11, F.Y.2011-12, F.Y.2012-13. Federal Government has paid an amount of Rs.7.516 billion to the Government of Balochistan upto F.Y.2014-15.

2.3: Distribution of Excise Duty on Natural Gas

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-XII: Excise Duty on Natural Gas

(Rs in billion)

Period	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
FY-2014-15 (Full year)	0.411	7.848	1.318	1.566	11.143
2nd half (FY-2014-15) (Jan. – June,2015)	0.198	3.909	0.664	0.833	5.904

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

2.4 Grants-in-Aid to Sindh Province

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 2014-15, the provincial share in the divisible pool was Rs.1390.30 billion. Accordingly, said grant-in-aid comes to Rs.9.176 billion, whereas Rs.8.799 billion were paid to the Government of Sindh during FY-2014-15. Difference of Rs.0.377 billion will be paid in FY-2015-16. Out of total Grants-in-Aid, Rs.4.569 billion was paid to Government of Sindh during January to June, 2015.

GENERAL SALES TAX ON SERVICES

3.1 General Sales Tax on Services (GSTS)

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.

Government of Sindh, Punjab and Khyber Pakhtunkhwa have established their own Revenue Agencies, and started collecting GST on Services at their own. However, Province of Balochistan is in the process of setting up its own authority. Therefore, FBR continued to collect GST on Services on behalf of Balochistan.

During whole financial year 2014-15, an amount of Rs. 0.840 billion was paid to Government of Balochistan. Similarly, an amount of Rs.1.683 billion was paid to Government of Sindh on account of GST on Services as arrears pertaining to FY 2013-14, which were paid in FY 2014-15.

MISCELLANEOUS PROVISIONS OF PRESIDENT'S ORDER

4.1: Miscellaneous

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

4.2: Streamlining of Tax Collection

Article-9(2) provides for streamlining of tax collection to improve revenue and to maintain fiscal discipline by the Federal and Provincial Governments. In this regard, the NFC recommended that the Federal Government and Provincial Governments would streamline their tax collection systems, reduce leakages and increase tax to GDP ratio by 15% 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 are given as follows:

TABLE-XIII: Projections for Increasing Tax-to-GDP Ratio

(As % of GDP)

Items	Benchmark	Projections				
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Tax to GDP Ratio	10.70	11.75	12.80	13.60	14.30	15.00
Federal	10.2	11.10	12.00	12.70	13.30	13.85
Provincial	0.50	0.65	0.80	0.90	1.00	1.15
FBR tax efforts		1.00	0.90	0.80	0.70	0.55
Provinces' tax efforts		0.15	0.15	0.10	0.10	0.15

As against the NFC recommended target, the tax to GDP ratio, during 2013-14 and 2014-15, remained as follows:

TABLE-XIV: Actual Tax Collection and Tax-to-GDP Ratio

(Rs in billion)

	2013-14	2014-15	Growth (%)
Total Tax Receipts	**2564.60**	**2850.56**	11.2%
	10.1%	10.4%	
Federal	**2374.54**	**2644.76**	**11.4%**
	9.3%	9.7%	
of which FBR Receipts	2254.53	2590.00 ϕ	14.9%
Provinces	**190.06**	**205.80**	**8.3%**
	0.7%	0.8%	
Punjab	96.48	98.02	1.6%
Sindh	79.11	93.82	18.6%
Khyber Pakhtunkhwa	11.68*	11.37**	-2.6%
Balochistan	2.79	2.59	-7.2%
GDP (mp)	25402.0	27384.0	

Note: Details of provincial tax receipt are at Annex-II & III.

ϕ FBR reported monthly collection as Rs. 2590.0 billion *vide* their letter dated 15.9.2015. However, the total FBR receipts reported on monthly basis, for distribution of resources amongst provinces, comes to Rs. 2523.56 billion as mentioned in **Table-1** of the report.

Finance Department, Government of Khyber Pakhtunkhwa has clarified that:

* Net figures of UIP tax have been taken instead of total collection. It also included Rs. 1.415 billion as arrears of GST (Provincial) for F.Y. 2012-13 received in F.Y. 2013-14 from Federal Government.

** Net figures of UIP tax for F.Y. 2014-15 have been taken instead of total collection.

The above table shows tax receipts of Provinces. A table showing Provincial Own Receipts (Tax + Non–Tax) has been given at page-21 of the report. In pursuance of Article 9(2) of the Award, various steps taken by the Federal Government and Provincial Governments are reproduced as follows:

4.2.1 Federal Government

a. FBR has collected Rs.2, 590 billion as provisional collection during July-June, 2014-15 showing a growth of around 15% over the corresponding period of last year. The direct taxes have grown by 17.8%, sales tax 9.2%, federal excise duty 7.5% and customs by 26.1%. The recent decline in prices of petroleum products and other commodities have adversely impacted the tax revenues. During July-August 2015-16, FBR has collected Rs.327.2 billion against Rs.303.2 billion in the corresponding period last year. In absolute terms, it shows Rs.24 billion higher collection in first two months of CFY, as compared to the previous year.

b. In order to increase tax to GDP ratio to 15% in the next few years, FBR has devised a comprehensive reforms program and strategy to gear up its resource mobilization efforts. This include broadening of tax base, rationalization of concessionary regime and withdrawal of exemptions/SROs, administrative improvement initiatives, taxpayers facilitation, strengthening of tax audit, custom modernization and control and improvement in human resource management.

4.2.2 Government of Punjab

a. In order to rationalize the payment of stamp duty on transfer of rights in immovable properties, the Stamp Duty was proposed to be enhanced from 2% to 3% while reducing the registration fee from existing 1% to Rs.500/- or Rs.1000/- only depending upon the value of the property. Registration fee is paid only by the parties who get their documents registered within the office of Sub-Registrar. Whereas the persons who get rights in an immovable property transferred in a housing/cooperative society etc. are not paying the registration fee but only paying the stamp duty. This measure will strike the right balance in transfer of properties.

b. The slight enhancement considering the inflation, rates of stamp duty on certain instruments for example affidavit, agreement, cancellation deed, contract, divorce, partnership deed and revocation of trust has been revised after the year 1995 when these were lastly revised.

c. The Government has revised valuation list of properties as required under the Punjab Urban Immovable Property Tax Act, 1958, after a period of 13 years. This list has been enforced for the purpose of assessing and collecting the property tax w.e.f. 01-08-2014. Since last revision, rental values of properties have increased manifold, therefore, in order to rationalize increase the limit of Annual Value for grant of exemption to certain buildings and lands.

d. The Punjab Motor Vehicles Taxation Act, 1958 has been amended several times to keep it up to date according the requirements and to adopt the technological up-gradation emerging in road transport and motor vehicle management. Further amendments in the aforesaid Act, to enhance the revenue of the Province keeping in view the increasing trends of the registration of the vehicles and infrastructure used by these vehicles.

e. The Punjab is collecting sales tax on services from July, 2012 onwards. Based upon the operational experience so far gained by Punjab Revenue Authority, besides certain editorial amendments, some technical amendments were proposed in the Punjab Sales Tax on Services Act, 2012. The technical amendments covered the issues relating to tax determination for the period during which a taxable business is not registered, reinstatement or restoration of deactivated, suspended or cancelled registrations, rationalization of pecuniary penalties for intentional non-compliance and equalization of arrear recovery with the recovery process of civil courts. The amendments will work to further smoothen the application of the said Act to increase efficiency of Punjab Revenue Authority alongwith facilitation of the taxpayers.

f. In order to plug compliance gaps arising out of the diversities of services tax tariff interpretations, descriptions of several taxable services alongwith classifications have been rationalized so that taxability issues in matching or comparative service regimes may be resolved through acceptable policy intervention. Moreover, some descriptions have been readjusted or slightly modified to accommodate the statutory classificatory scope of services and scope of taxation of services specified in the regulatory framework of the Punjab Sales Tax on Services. Some statutory exemption threshold criteria have been rationalized to forestall escape from tax liabilities in case of services which have traditionally remained out of tax net and are still reluctant to start compliance. With these changes, the disputes relating to express cargo service, tax coverage of financial services, business name manipulations in case of food sector services, tax coverage of technical consultancy service and taxability of several allied services of taxable services of principal business domain, shall be resolved amicably.

g. Besides, ten new such services were included under the tax net, which were either being partially taxed as part and parcel of taxable services of other business domains or were failing the discharge tax liabilities in respect of the taxable component of their main business activities. These services include specialized workshops, repair and maintenance, indenting/brokerage; call centers, lab services (other than pathological and diagnostic testing of patients), physical fitness services, laundry and dry cleaning services and cable TV, TV/ratio program production. Inclusion of these new services will further bring equity in the Punjab sales tax base and also harmonize the service tax system of Punjab with other Provinces.

h. Rate of token tax of vehicles on some of the slabs have been revised through Finance Act, 2014.

i. Luxury tax on imported vehicles (motor cars or jeeps) on different categories has been imposed.

j. Tax on luxury houses has also been imposed on different categories of area (from 2-kanal to 8-kanal and above) vide the First Schedule of Section 8 of the Punjab Finance Act, 2014.

4.2.3 Government of Sindh

a. An average growth of 21.58% has been recorded in Provincial Tax Receipts during the F.Y.2010-11 to 2014-15.

b. Removed certain tax anomalies & distortions between Sindh - Punjab.

c. Exemption on certain taxable services has been withdrawn/reviewed.

d. Focus is on capacity building of revenue generating departments.

e. The automation of Board of Revenue, Excise Taxation and Narcotics Department and Sindh Revenue Board is being carried out.

f. The Land Administration and Revenue Management Information System (LARMIS) for the computerization of lands record in Sindh is the priority initiatives. About 90% of lands record has been completed that will improve the collection of tax on land.

g. Computerization of Stamp Duty, Registration and Capital Value Tax is also under progress that will substantially increase tax collection under these heads.

h. 100% of transactions of Motor Vehicle Tax Revenue are being carried out through new computerized system.

i. The Data of Property Tax has also been digitized/computerized in all Divisions of Karachi.

j. Government of Sindh in pursuance of Article 161(1)(b) of the Constitution has requested Federal Government for imposition of Excise Duty on Crude Oil, the net proceeds of which be paid to the province of Sindh.

k. Sindh Tax Revenue Mobilization Plan (STRMP) has been established for studies of tax policy analysis and coordination between the tax collection agencies which is under progress.

l. Working towards Harmonization of Agriculture Income Tax is Sindh is under progress.

m. To obtain 100% reconciliation of accounts at Provincial level, a Provincial Fiscal Monitoring Committee is working on reconciliation of receipts and expenditure of the Administrative Department on regular basis. Accordingly, the reconciliation of provincial receipts and expenditure with Accountant General Sindh, Treasuries and District Accounts Offices is being carried.

n. The Government of Sindh is holding meetings with revenue generating departments to increase revenue targets and broaden tax net of respective agency.

o. Government of Sindh has committed not to get in overdraft with the State Bank of Pakistan and position of cash balance is satisfactory.

p. Sindh Government released development/non-development funds on quarterly basis in order to match transfer of development funds with available fiscal space to Sindh Government.

q. Release of funds was strictly monitored alongwith actual expenditure against the released amounts of avoid unnecessary parking of funds.

r. No advances are being drawn on Abstract bill/pre-receipted bill.

s. No liability beyond budgetary authorization/released for a particular time span is being allowed.

t. Finance Department advises spending departments time to time that financial discipline may be maintained.

u. Additional grants/releases are being made after examining thoroughly needs of the Administrative Department.

v. New expenditure (SNE) is being allowed only in cases of strong need of the Administrative Department.

4.2.4 Government of Khyber Pakhtunkhwa

a. Steps taken by the Provincial Government during financial year 2014-15 for improvement of tax to GDP ratio have already been reflected in the Bi-annual report for the period from July- December, 2014. However, actual collection during the report period is reflected as under:-

(Rs. in millions)

Description	Budget Estimates 2014-15	Prop: for 6 months	Actual collection (July to Dec, 2014)	Actual collection (Jan: to June, 2015)	%age of collection of 6 months (July to Dec, 2014)	%age of collection of 6 months (Jan: to June, 2015)
Tax Receipt	19,452.809	9,726.405	5,478.72	6,188.04	56.3%	63.6%
Non-Tax Receipt	9,327.668	4,663.984	4,492.60	6,547.11	96.3%	140.3%
Total (Tax & Non-Tax)	28,780.777	14,390.388	9,971.32	12,735.15	69.2%	88.5%

b. The recovery of tax receipt during the period of report remained 63.6% which is satisfactory as compared to the 1st 6 months of financial year 2014-15 (July to December 2014) which was 56.3%. This shows improvement in tax collection.

c. There are certain issues affecting the Provincial revenue which include collection of Infrastructure Development Cess by the FBR on behalf of Provincial Government withholding tax on motor vehicle, advance tax on property and sales tax input adjustment. These issues need to be addressed by Federal Govt: to improve the tax recovery of Provincial Government.

4.2.5 Government of Balochistan

a. The BPPRA has started functioning from the current financial year 2014-15. The Authority will help to improve financial discipline in the province and safeguard the Government Exchequer from misappropriation.

b. The PSDP of the financial year 2014-15 was not only kept within the budgetary allocation but reduced from its original size of Rs.48.019 to Rs.41.497 billion. The saving strengthened the financial position of the province and also helped out the national cash deficit.

4.3: Fiscal Discipline

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:-

4.3.1 Federal Government

a. Present government inherited the fiscal deficit over 8% of GDP which was reduced to 5.5% of GDP during 2013-14 and 5.3% of GDP during 2014-15. For the year 2014-15, Federal Government contained spending to meet its share of deficit target despite unforeseen expenditures relating to security and TDPs. Fiscal deficit target has been fixed at 4.3% of GDP in spite of the fact that federal development spending has been increased by over 30% which includes an allocation of Rs.100 billion for security enhancement and for relief and rehabilitation of GDPs. The Federal Government has taken following measures to contain its expenditures:-

   (1) Releases are being maintained in accordance with the revenue inflows i.e. 20% each for Q1 and Q2 and 30% each for Q3 and Q4.

   (2) Complete ban on purchase of all types of vehicles except operational vehicles for law enforcement agencies.

   (3) Ban on creation of new posts.

   (4) Ban on re-appropriation from employees related expenditure and utilities allocation.

   (5) Restriction on entertainment charges.

4.3.2 Government of Punjab

a. Punjab Government followed strict austerity measures to reduce expenditure on purchase of durable goods. Purchase of all durable goods was subject to clearance of the high level austerity committee headed by the Finance Minister.

b. Government of Punjab has maintained the revenue surplus as per the decision of CCI's meeting held on 31-07-2013 to help the Federal Government avoid budget deficit. Upon this, Federal Government has given incentive of Rs.1,702.737 million during FY-2014-15 (@ latest T-bills rate, maintained for a minimum period of three months).

c. A pilot project was launched in District Sialkot for automation of property tax (UIPT) record through GIS mapping of properties and conducting door-to-door surveys of properties. The project was completed in the year 2013. Results of the pilot project have established the fact that automation of tax record, survey of properties to bring missing properties into tax net, expansion of tax to extended areas and automatic system of tax demand generation have brought a sizable increase to existing revenue collection from UIPT. Accordingly, the automation was initiated in 5 large districts of Punjab, which will be completed by June 2015. Further roll out of the automation in remaining 30 districts will commence in the next financial year 2015-16.

d. So far the automation has resulted in the revenue enhancement of UIPT by 33% over and above the last financial year.

e. Punjab Government is also focusing on the improvement in recovery of Agriculture Income Tax in the province. Board of Revenue, Punjab has issued more than 40,000 notices to potential tax payers during financial year 2014-15.

f. Government of Punjab has initiated the project of Automation of Stamp Papers (e-stamping) to revamp the existing system of collection of stamp duty. This is a step towards citizens' facilitation and transparency in collection mechanism and will prove to increase the revenue by plugging leakages and better administration/reconciliation.

g. Government of Punjab has notified the established of four Commission rates of the Punjab Revenue Authority (PRA) in Multan, Gujranwala, Faisalabad and Rawalpindi for better administration and collection of sales tax on services. This step is expected to enhance the receipts from sales tax on services substantially.

4.3.3 Government of Sindh

<u>Cash Monitoring:</u> The cash balance position is being closely monitored with State Bank of Pakistan. The releases of funds are made on the basis of availability of cash in non-Food Account No1. Finance Department monitors its cash balance with SBP on daily basis and before issuing any advice for release of funds it ensures that cash position remains within the ways and means limit. Government of Sindh has developed a mechanism where releases are being monitored at three stages, so that expenditure remains within the available cash limits. This elaborate mechanism of monitoring helped Government of Sindh in keeping its cash balances within ways and means limit.

4.3.4 Government of Khyber Pakhtunkhwa

a. The Government of Khyber Pakhtunkhwa adopted policy guidelines in the Province to incur expenditure uniformly during the report period and to keep all cheques enchased by the 30th June of Financial Year2014-15.

b. Austerity measures were observed which include ban on purchase of vehicles, creation of new posts, and economization of electricity, POL and slashing down current expenditure to the bare minimum.

c. To ensure internal audit all Principal Accounting Officers were made bound to conduct meetings of DAC regularly.

d. Government of Khyber Pakhtunkhwa kept its cash balance with SBP in surplus over period due to good strategy and financial discipline in public expenditure.

e. Ban on treatment and training abroad on Provincial Government expense were observed.

4.3.5 Government of Balochistan

Balochistan Government passed the Balochistan Sales Tax Act, 2015 and Balochistan Revenue Authority Act, 2015 and is in the process of establishing Balochistan Revenue Authority, which is likely to start functioning by end of December, 2015.

TABLE-XV: Provincial Own Receipts

(Rs in billion)

	2013-14	2014-15	Growth (%)
Provinces	**241.50**	**269.63**	**11.6%**
Punjab	121.19	130.96	8.1%
Sindh	84.47	102.26	21.1%
Khyber Pakhtunkhwa	29.31	30.31	3.4%
Balochistan	6.53	6.10	-6.6%

-.-.-.-.-.-.-.-.-

Annex-I

REGISTERED No. $\frac{\text{M - 302}}{\text{L.-7646}}$

The Gazette of Pakistan

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;

Price : Rs. 5.00

[2438(2010)/Ex. Gaz.]

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 per cent 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 per cent shall be assigned to provinces during the financial year 2010-11 and fifty-seven and half per cent from the financial year 2011-12 onwards. The share of the Federal Government in the net proceeds of divisible pool shall be forty-four per cent during the financial year 2010-11 and forty-two and half per cent 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.

PRINTED BY THE MANAGER, PRINTING CORPORATION OF PAKISTAN PRESS, ISLAMABAD.
PUBLISHED BY THE DEPUTY CONTROLLER, STATIONERY AND FORMS, UNIVERSITY ROAD, KARACHI.

Annexure-II

Provinces' Tax Receipts [2013-14]

Rs. in Million

Function Code	Description	Punjab	Sindh	Khyber P' Khwa	Balochistan
B	**Tax Revenue**	**96,482**	**79,108**	**11,680**	**2,792**
B01	**Direct Taxes**	**24,907**	**3,859**	**2,282**	**182**
B' 011	Tax On Income	967	267	32	1
B' 013	Property Tax	6,594	943	267	122
B' 014	Land Revenue	11,115	202	1,493	55
B' 015	Workers Welfare Tax	.	.	.	.
B' 016	Tax on Profession, Traders and Callings	565	322	136	4
B' 017	Capital Value Tax on Immoveable Property	5,355	2,103	354	.
B 018&19	C.V.T (Moveable Property)	311	22	.	.
B02	**Indirect Taxes**	**70,424**	**52,519**	**8,860**	**2,597**
B' 023	Sales Tax on Svc GST	43,493	39,414	7,084	1,555
B' 026	Provincial Excise	1,626	3,441	25	369
B' 027	Stamps Duties	14,945	5,919	713	243
B' 028	Motor Vehicles	10,359	3,745	1,038	430
B' 029	Sale of Opium	.	.	.	.
B03	**Indirect Taxes-Others**	**1,151**	**22,730**	**538**	**13**
B030	Indirect Taxes-Others	1,151	22,730	538	13

Annexure-III

Provinces' Tax Receipts [2014-15]

Rs. in million

Function Code	Description	Punjab	Sindh	Khyber P' Khwa	Balochistan
B	**Tax Revenue**	**98,016**	**93,815**	**11,373**	**2,592**
B01	**Direct Taxes**	**20,828**	**4,477**	**2,744**	**581**
B' 011	Tax on Income	1,027	343	67	188
B' 013	Property Tax	2,588	1,097	266	80
B' 014	Land Revenue	10,934	177	1,834	189
B' 015	Workers Welfare Tax	-	2	-	-
B' 016	Tax on Profession, Trades and Callings	603	322	204	2
B' 017	Capital Value Tax on Immoveable Property	5,396	2,507	288	85
B018&19	C.V.T (Moveable property)	280	29	85	37
B02	**Indirect Taxes**	**76,419**	**63,947**	**8,166**	**2,001**
B' 023	Sales Tax on Svc GST	42,660	49,364	6,280	841
B' 026	Provincial Excise	1,816	3,821	23	374
B' 027	Stamps Duties	21,845	6,552	817	265
B' 028	Motor Vehicles	10,098	4,210	1,046	519
B' 029	Sale of Opium	-	-	-	-
B03	**Indirect Taxes-Others**	**769**	**25,391**	**463**	**10**
B030	Indirect Taxes-Others	769	25,391	463	10

PCPPI-16153(15) Fin-31-12-15-1700 Books

PCP Printing Corporation of Pakistan Press, Islamabad