REPORT ON

2ND BIANNUAL MONITORING ON THE IMPLEMENTATION OF NFC AWARD

(January – June 2016)

Government of Pakistan
National Finance Commission Secretariat

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F.No.7(2)NFC/2016

ISLAMABAD
30th November, 2016

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

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

LETTER OF TRANSMITTAL

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, 2016 was approved by the Finance Ministers in the meeting held on 28th November, 2016, at Islamabad for laying before both Houses of the Parliament and Provincial Assemblies.

(Senator Mohammad Ishaq Dar)

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EXECUTIVE SUMMARY

This 2nd Biannual Monitoring Report on implementation of 7th NFC award covers the period from January to June, 2016 of Financial Year 2015-16. Total tax collection as reported by FBR remained Rs.1682.879 billion for 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.1623.461 billion. The Provincial share comes to Rs.933.490 billion, leaving a balance of Rs.689.971 billion for Federal Government. The Provincial share has been distributed as Rs.482.988 billion to Punjab (51.74%), Rs.229.172 billion to Sindh (24.55%), Rs.136.476 billion to KPK (14.62%) and Rs.77.996 billion to Balochistan (9.09%). KPK got Rs.16.399 billion on account of War on Terror.

On account of Royalty on Crude Oil, Gas Development Surcharge and Royalty on Natural Gas an amount of Rs.8.124 billion, Rs.17.105 billion and Rs.19.284 billion respectively was collected and transferred to the Provinces during January-June 2016. Similarly an amount of Rs.6.491 billion on account of excise duty on Natural Gas has 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.6.161 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.005 billion collected on behalf of Balochistan and transferred on them during the period under report.

INTRODUCTION

1.1 The NFC Award 2009 has been in implementation since FY 2010-11 through ***"Distribution of Revenues and Grants-in-Aid Order 2010" (Annex-I)***. The main responsibilities entrusted to the Federal and Provincial Governments through this Award are:

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).

a. 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).

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

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

d. 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).

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

f. 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 a report in this regard in both Houses of the Parliament and the Provincial Assemblies. The following pages present the implementation status of the above provisions of the President's Order, i.e., Distribution of Revenues and Grants-in-Aid Order, 2010.

DIVISION OF DIVISIBLE POOL TAXES

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

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

2.1: FBR Tax Receipts

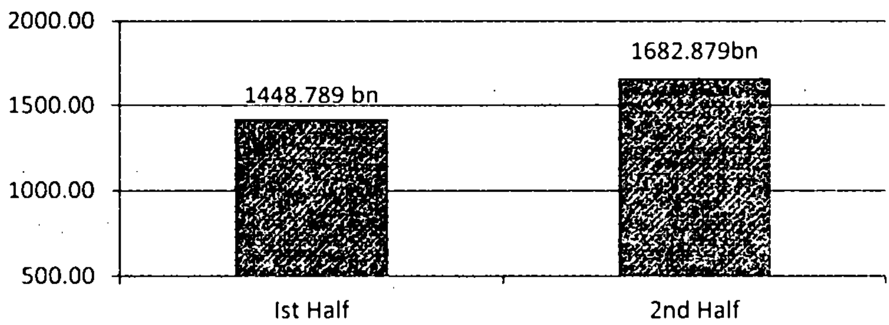
2.1.1 Federal Board of Revenues (FBR) reported the following tax collection for financial year 2015-16:

TABLE-I: Total FBR Collection during FY.2015-16

(Rs. in Billion)

A	Provisional collection reported on fortnightly basis during FY 2015-16	2953.266
B	Arrears worked out on receipt of final reconciled collection for FY 2014-15 reported in FY 2015-16	178.402
C	**Total Collection reported during FY 2015-16 (A+B)**	**3131.668**

2.1.2 The releases to the Provinces during the financial year 2015-16 were made on the basis of FBR collection amounting to Rs. 3131.668 billion. Out of this collection, Rs.1448.789 billion was reported during first half (July to December, 2015) and Rs. 1682.879 billion was reported during second half (January to June, 2016) of the financial year 2015-16. The following chart shows a snapshot of collection during the two halves:



2.2 Distribution of Divisible Pool Taxes

2.2.1 The components of divisible pool taxes are laid down in clause (1) of Article 3 of the President's Order 2010. Total receipts of FBR also include some non-divisible pool components. Therefore, after deducting such components, the gross divisible pool taxes were worked out as Rs. 3083.975 billion against total tax receipts of Rs. 3131.668 billion. Gross divisible pool taxes for 2nd half of F.Y.2015-16 (January–June, 2016) come to Rs. 1662.608 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 2015-16	2nd half 2015 -16
Total Collection FBR Receipts	**3131.668**	**1682.879**
Less Non-Divisible Pool Components	**47.693**	**20.271**
WWF	25.395	9.293
GST on Services	3.405	1.172
Excise Duty on Natural Gas	12.573	6.624
Income Support Levy	0.006	0
Exp. Development Surcharge	6.314	3.182
Gross Divisible Pool Tax	**3,083.975**	**1662.608**

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 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 2015-16 and 2nd half of FY (Jan-June 2016) are as follows:

TABLE-III: Vertical Distribution of Share For F.Y-2015-16

(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	**3,083.975**	**42.583**	**3,041.391**	**30.414**	**3,010.978**	**1,731.312**
Income Tax	1,174.368	23.487*	1,150.881	11.509	1,139.372	655.139
Wealth Tax	(0.041)	(0.000)	(0.041)	(0.000)	(0.040)	(0.023)
Capital Value Tax	2.115	0.021	2.094	0.021	2.073	1.192
Sales Tax (Excl.GST on Services)	1,323.550	13.236	1,310.315	13.103	1,297.211	745.897
Federal Excise (Excl. ED on NG)	178.931	1.789	177.142	1.771	175.370	100.838
Customs (Excl. Export Dev. Surcharge)	405.052	4.051	401.001	4.010	396.991	228.270

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

TABLE-IV: Vertical Distribution of Share For 2nd Half Of Fy-2015-16 (January - June, 2016)

(Rs in billion)

	FBR Receipts	Collection Charges (1%)	Net Div. Pool Taxes	1% for WoT for Khyber Pakhtunkhwa	Balance Net Div. Pool	Prov. Share (57.5%)
Divisible Pool Taxes	**1,662.608**	**22.749**	**1,639.859**	**16.399**	**1,623.461**	**933.490**
Income Tax	612.251	12.245*	600.006	6.000	594.006	341.553
Wealth Tax	-	-	-	-	-	-
Capital Value Tax	1.308	0.013	1.295	0.013	1.282	0.737
Sales Tax (Excl.GST on Services)	721.299	7.213	714.086	7.141	706.945	406.493
Federal Excise (Excl. ED on NG)	104.159	1.042	103.117	1.031	102.086	58.700
Customs (Excl. Export Dev. Surcharge)	223.591	2.236	221.355	2.214	219.142	126.006

* 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 2015-16 has been worked out as follows:

TABLE-V: Horizontal Distribution of Share For FY-2015-16

(Rs. in billion)

	Total (100%)	Punjab (51.74%)	Sindh (24.55%)	Khyber-Pakhtunkhwa (14.62%)	Balochistan (9.09%) *
Divisible Pool Taxes	**1731.312**	**895.781**	**425.037**	**253.118**	**155.993**
Income Tax	655.139	338.969	160.837	95.781	67.284
Wealth Tax	(0.023)	(0.012)	(0.006)	(0.003)	(0.002)
Capital Value Tax	1.192	0.617	0.293	0.174	0.068
Sales Tax (Excl.GST on Services)	745.897	385.927	183.118	109.050	63.876
Federal Excise (Excl. ED on NG)	100.838	52.174	24.756	14.742	9.763
Customs (Excl. Export Dev. Surcharge)	228.270	118.107	56.040	33.373	15.002

* Released as per BE 2015-16

2.4.2 The table below presents the horizontal distribution of share for the 2nd half of FY 2015-16:

TABLE-VI: Horizontal Distribution of Share For 2nd Half of Fy-2015-16 (Jan-Jun,2016)

(Rs in billion)

	Total	Punjab	Sindh	Khyber Pakhtunkhw	Balochistan
	100%	51.74%	24.55%	14.62%	9.09% *
Divisible Pool Taxes	**933.490**	**482.988**	**229.172**	**136.476**	**77.996**
Income Tax	**341.553**	176.720	83.851	49.935	33.642
Wealth Tax	-	--	-	-	-
Capital Value Tax	**0.737**	0.381	0.181	0.108	0.034
Sales Tax (excl.GST on Services)	**406.493**	210.320	99.794	59.429	31.938
Federal Excise (excl Excise Duty on NG)	**58.700**	30.371	14.411	8.582	4.882
Customs (excl. Export Dev. Surcharge)	**126.006**	65.196	30.935	18.422	7.500

*Released as per BE 2015-16

2.4.3 Khyber Pakhtunkhwa has been paid an amount of Rs. 30.414 billion during F.Y.2015-16. Out of this an amount of Rs 16.399 billion was paid during the period under report i.e January–June, 2016. 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 2015-16 (Total)**	**2nd Half of FY 2015-16**
Share in the Divisible Pool (14.62%)	253.118	136.476
1% War on Terror	30.414	16.399
Total:-	**283.532**	**152.875**

2.4.4 Similarly, Clause (3) of Article 4 of the President's Order also guarantees that Balochistan province shall receive the projected sum of the provincial share in the net proceeds of divisible pool taxes and any shortfall shall be made up by the Federal Government from its own resources. It may be added that the above releases of the entire financial year 2015-16 stands reconciled with the Provincial Finance Departments.

STRAIGHT TRANSFERS/GRANTS-IN-AID

3.1: Distribution of Royalty on Crude Oil

3.1.1 Article 5 of the President's Order relates to the distribution of net proceeds of royalty on crude oil. M/o Petroleum and Natural Resources is responsible for collection of this levy and reports 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-VII: Royalty on Crude Oil

(Rs in billion)

Period	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
(FY-2015-16) Full year	2.395	7.154	8.509	-	18.060
2nd half (FY-2015-16) (Jan. – June,2016)	1.114	3.491	3.517	-	8.124

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. 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-IX: Total Distribution of Royalty on Natural Gas and GDS For FY.2015-16

(Rs in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	1.296	27.855	5.090	5.694	39.938
Gas Dev. Surcharge	1.559	20.420	3.376	5.754	31.110

TABLE-X: Amount of Royalty on Natural Gas and GDS in 2nd Half Of FY.2015-16 (Jan-June, 2016)

(Rs in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.602	14.776	2.905	0.998	19.284
Gas Dev. Surcharge	0.882	9.737	1.859	4.626	17.105

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-2015-16 (Full year)	0.420	8.195	1.545	2.160	12.321
2nd half (FY-2015-16) (Jan. – June,2016)	0.239	4.427	0.877	0.947	6.491

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 2015-16, the provincial share in the divisible pool was Rs.1731.312 billion. Accordingly, the amount of said grant-in-aid comes to Rs.11.427 billion, whereas Rs.11.893 billion (including arrear) were paid to the Government of Sindh during FY-2015-16. Out of total Grant-in-Aid, Rs.6.161 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 Article 8 of the Order, NFC accepted that General Sales Tax on Services is a provincial subject under the Constitution and may be collected by the respective Provinces, if they so desire.

4.1.2 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 financial year 2015-16, an amount of Rs,0.389 billion was paid to Government of Balochistan, out of which Rs.0.005 billion were released to Balochistan during January-June, 2016.

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) provided for increase in the rate of excise duty on Natural Gas to Rs.10.0 per MMBTU. The recommendation stands already implemented through Finance Bill, 2010.

5.2: Streamlining Tax Collection

5.2.1 Article-9(2) provides for streamlining of tax collection to improve taxation and to maintain fiscal discipline by the Federal and Provincial Governments. In this regard, the NFC recommended that the Federal and Provincial Governments would streamline their tax collection systems to reduce leakages and increase revenues through efforts to improve taxation in order to achieve 15% tax to GDP ratio by the terminal year of the Award i.e. 2014-15. It was also recommended that Provinces would initiate steps to effectively tax the Agriculture and Real Estate sectors. The projections regarding tax efforts recommended by the NFC were as follows:

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

(As % of GDP)

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

5.2.2 As against the above recommended path, the tax receipts of Federal and Provincial Governments during F.Y.2015-16 is as follows:

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

(Rs. in billion)

	B.E. 2015-16	Tax Receipt upto June, 2016	(%) over B.E.
Federal	**3,418.221**	**3,660.418**	**107.08 %**
of which FBR Receipts	*3,103.706*	*3,131.668*	*100.90 %*
Provinces	**311.406**	**289.953**	**-6.88 %**
Punjab	160.591	149.479	-6.92 %
Sindh	124.620	123.117	-1.21 %
Khyber Pakhtunkhwa	22.595	13.073	-42.14 %
Balochistan	3.600	4.284	119.00 %

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

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

Federal Government

a. FBR has collected Rs.3112.1 billion as provisional collection during July-June, 2015-16 showing a healthy growth of 20.2%, over the corresponding period of last financial year. All the taxes have exhibited double digit growth.

b. Tax to GDP ratio has improved marginally. In fact, it improved from 9.4% in 2012-13 to 9.5% in 2015-16.

Table-XIV: Provisional Tax Collection (July-June, 2015-16)

(Rs. In billion)

Fiscal Year	2015-16	2014-15	Growth(%)
Direct Taxes	1191.6	1033.7	15.3%
Sales Tax	1323.7	1087.8	21.7%
FED	190.6	162.2	17.5%
Customs	406.2	306.2	32.7
Total	**3112.1**	**2589.9**	**20.2%**

c. FBR has taken various policy and administrative measures during last three years to enhance resource mobilization efforts in the country. The details of these initiatives and achievements are given below:—

(1) **Elimination of SRO Culture:**

In order to ensure level playing field for all taxpayers, SROs/concessions have been withdrawn during last three years worth more than Rs.290 billion. However, socially sensitive and essential concessions have been transpose3d to the relevant laws.

(2) **Withdrawal of the Powers to Issue Concessionary SROs:**

Through Finance Act, 2015, the powers of the FBR to issue exemptions/concessions in tax laws have been withdrawn altogether. However, ECC of the Cabinet has the powers to grant exemptions on behalf of Federal Government under very limited circumstances.

(3) **Rationalization of Import Tariffs:**

To rationalize the import tariff structure and to reduce the general tariff slabs, peak tariff slab was reduced to 20%. The existing tariff slabs are 4 with the peak of 20% and floor of 3%. To control consumption of luxurious goods and to save local industry from cheap imports under various regimes, regulatory duty has been imposed on various commodities.

(4) **Rationalization of Tax Rates:**

In order to promote tax culture and corporatization in the country it was decided to gradually reduce the tax rates for corporate taxpayers other than banks in the following manner:-

Tax year 201335%
Tax year 201434%
Tax year 201533%
Tax year 201632%
Tax year 201731%
Tax year 2018 & onwards30%

(5) **Differential Taxation:**

In order to increase compliance and enhance revenues to create space for spending on socially important projects, the concept of filers and non-filers has been introduced. The cost of business for non-filers has been significantly increased in the recent years. This step was taken to encourage people to file income tax returns.

(6) **Broadening of Tax Base**

For broadening of tax base several initiatives have been taken and some of which are in the pipeline. Initially the objective is to incorporate 300,000 new taxpayers. In this regard, 460,000 notices have already been issued by June, 2016.Differenctial taxation for filers and non-filers has been introduced and number of filer has also been increased from around 700,000 to more than 1 million (from FY 2012-13 to 2015-16).

(7) **Strengthening Tax Audit**

An audit plan has been reintroduced to accompany the self assessment scheme and to overcome weak tax compliance. Substantial progress has been achieved for infrastructure up-gradation and development with the introduction of the Integrated Tax Management System (ITMS), which is available to all the field formations.

(8) **Anti-Smuggling Strategy**

Frontiers Corps (KPK) has been entrusted to carry out anti-smuggling within 20 K.M. of the international borders. Joint efforts are undertaken between Customs and other Law Enforcement Agencies. Anti smuggling powers have been entrusted to Pakistan Coast Guards and Pakistan Maritime Security Agency to check the smuggling of contraband goods. Similarly, the Political Administration in Tribal areas has also been entrusted with anti-smuggling powers. Pakistan has signed an agreement with Afghanistan (Afghan-Pakistan Transit Trade Agreement). The importers as well as the carrier of Afghan cargo have to submit bank guarantees which are released only on verification that the goods have reached Afghanistan and were not pilfered inside Pakistan.

(9) **Behavioral Change**

In order to promote tax culture, compliance and dispel the general impression about escaping taxation by individual having prominent position in the society, FBR has under taken following initiatives for bringing a behavioral change in society about the tax culture perception:

i. Tax Directory of Parliamentarians
ii. Establishment of Financial Investigation Cell
iii. Campaign against Tax Evaders

(10) **Taxpayers Facilitation and End-To-End Automation**

To simplify procedures and minimize contact between the taxpayers and the tax collectors, FBR management has made revolutionary changes in automation of tax procedures. Major achievements include:-

a. Web Based One Customs (WeBOC) System of Clearance
b. EDI – Electronic Data Interchange
c. Inland Revenue Information System (Iris)

Government of Punjab

i. The Stamp Duty on the instruments of transfer of lease hold rights was charged on the value of property declared by the parties. Valuation table notified by the District Collector under Section 27-A of the Stamp Act, 1899 was not reflected in Article 63 of Schedule-I of ibid Act. In order to ensure the actual value of property as per Valuation Table and to secure the loss, Article 63 of Schedule-I has been included in section 27-A of ibid Act.

ii. Prior to 1st July 2015, immoveable property in urban areas valuing one million rupees was exempted from Capital Value Tax (CVT). This exemption on CVT was being widely misused by splitting the transactions to avoid taxation. Hence, the said exemption in subsection (5), in clause (a) in section 6 of Punjab Finance Act, 2010 (VI of 2010) has been done away with. This has brought progressivity in CVT and enhanced the equity on taxation on the immoveable property transactions.

iii. Education Cess on Clubs was levied through Punjab Finance Act, 2011, while Punjab Revenue Authority (PRA) also started collection of sales tax @ 16% on clubs since July, 2012 through an enactment. However, in order to avoid dual taxation of clubs by both Excise & Taxation Department and PRA the Government abolished Education Cess on clubs to prevent hardships to such clubs by omitting section 7 of Punjab Finance Act, 2011.

iv. Some technical amendments in the Punjab Sales Tax on Services Act, 2012 were made relating to the concept of forensic audit, harmonization of record maintenance provisions with the Federal Board of Revenue, rationalization of pecuniary penalties for non-compliance of provisions relating to compulsory registration and provision of information, introduction of prize schemes for the general public and rewards for whistleblowers. The amendments would work to further smoothen the application of the said Act to increase efficiency of PRA along with facilitation of the taxpayers.

v. In order to plug compliance gaps arising out of the diversities of services tax tariff interpretations, descriptions of several taxable services along with classifications have been rationalized so that taxability issues in matching or comparative service regimes may be resolved. 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 services provided by consultants, information technology-based/enabled services, franchise services, share transfer agents and taxability of several allied services of taxable services of principal business domain, shall be resolved amicably. Besides, services provided through pipeline or conduit, inter-city carriage of goods and visa consultancy services which were being partially taxed as part and parcel of taxable services of other business domains have been separately enumerated.

vi. Ten new such services have been included under the tax net. These services include Public relations services, services provided by chartered accountants, auditors, corporate law consultants etc., air travel and transportation of goods by air (previously being taxed by the Federal Government), chartered flights, hiring of equipment and machinery services, debt collection services, supply chain management services, photography services and sponsorship services. Inclusion of these new services have further brought equity to the Punjab sales tax base and also harmonize the service tax system of Punjab with other Provinces.

Punjab Infrastructure Development Cess.

a. The Government intends to mobilize more resources for the development of infrastructure in the Punjab. Sindh is collecting infrastructure development cess since 1994 and is now raising substantial funds for development purposes. Khyber Pakhtunkhwa too has imposed infrastructure development cess and is making necessary institutional arrangements in collaboration with Federal Board of Revenue to start its collection at the earliest.

b. Punjab also has a great potential to generate good revenue income from infrastructure development cess. Those who use the infrastructural and ecological facilities of the Punjab need to contribute for the further development of the Province. Punjab infrastructure development cess @ 0.90% has, therefore, been levied and collected in case of goods other than fresh food items imported into the Punjab and custom-cleared through ports, dry-ports, airports and other custom stations including bonded warehouses on the basis of their value assessed for the purpose of custom duties.

c. The collection of the said development cess shall be made through the automated system of Pakistan Customs maintained and operated by PRAL (IT arm of FBR) under connectivity with the Punjab Revenue Authority's computer system. The collection of cess shall be made at the same time and in the same manner as is applicable to customs duties but it will be deposited under a separate head of account of the Punjab Government. The Punjab Revenue Authority will monitor the collection and payment of the development cess on real time basis.

Government of Sindh

a. Special attention is being given towards improvement of Tax Reform Unit (TRU) established in Finance Department to increase provincial own tax receipts with coordination of the World Bank, Chamber of Commerce & professionals.

b. Debt Management Unit (DMU) is fully functional with coordination of provincial & federal entities for attaining 100% achievements.

c. Sindh Government is engaged in number of other reform programmes in partnership with international donors. These reforms focus on participative budgeting, out-put based budgeting – MTBF, up-gradation/strengthening of PIFRA, introduction of Internal Audit in all departments, automation of PAC Secretariat, automation of Pensioners' data, strengthening of Bureau of Statistics, Sindh Public Procurement Regulatory Authority (SPPRA), public debt management, and capacity building of Government Functionaries.

d. Budget Strategy Paper (BSP) FY 2015-16 to 2017-18 and quarterly review of financial position have been presented before the Sindh Cabinet & Provincial Assembly to apprise the existing fiscal position and discussion.

e. GoS has also succeeded to contain its budget deficit through tax and non-tax receipts. Major Provincial Tax receipts are Agriculture Income Tax, Stamp duty, Registration, provincial excise, motor vehicle, capital value tax, cotton fee, electricity duty, infrastructure development cess and sales tax on services.

f. Finance Department is holding regular quarterly review meeting with the line departments particularly revenue generating departments for improving own source revenue. The actual revenue receipts of the first half against the proportionate figures as per budget estimates remain satisfactory.

g. The Government of Sindh has been striving to considerably expand its revenue base by fully tapping the Provincial Resource potential. The automation of the Board of Revenue, Excise & Taxation Department, and Sindh Revenue Board is functioning successfully in Sindh.

h. All transactions of land record & Motor Vehicle Tax Revenue are being carried out through new system of LARMIS.

i. With a view to bring in the expertise and efficiencies of the private sector, for the cost-effective and quality development of the public sector, Government of Sindh has taken the initiative of Public Private Partnerships.

j. In order to boost economy, Government of Sindh is actively pursuing innovative modes of financing, to attract the finances of the private sector for enhancement of funding for PPP projects.

k. GoS is also effective to increase the revenue if royalties on crude oil and net development surcharges on natural gas is given to the Sindh by the Federal Government.

Government of Khyber Pakhtunkhwa

a. Broadening of tax net of GST on Services as a result taxable service increased from 48 to 57.

b. Revision/enhancement of rates of various Taxes:-

   i: Revision of UIP Tax.
   ii. Revision of rates of Motor Vehicle Bargain Centers and Real Estates Agents.
   iii. Revision of fee for change of Body Type of Motor Vehicles.
   iv. Revision of rate of Token Tax.
   v. Revisions of rate of spirit permit fee and licenses.
   vi Revision in the rate of various permit fee, stand fee and parking fee etc.

c. The Provincial Revenue tax targets has been raised from Rs.19,452.809 million to Rs.22,594.500 million in the financial year 2015-16 showing an increase f 16.2% with actual realization of receipt of Rs.13,073 million by close of financial year 2015-16.

d. Low collection f tax receipts during the report period January to June 2016 is due to non collection of infrastructure Development Cess from which clearance from Federal Board Revenue was received in May 2016. Further Electricity Duty due for payment to Provincial Government has not been paid by Federal Government/PESCO and adjusted against the arrears of Provincial Government Department.

e. Eclipsing of Provincial Taxes through enhanced rate of Federal Withholding Tax is another reason for low collection. Further due to non signing of Memorandum of Understanding (MOU) between Provincial and Federal Government regarding cross adjustment of Sales Tax on Goods and services is another issue for low collection.

Government of Balochistan

a. The Balochistan Revenue Authority established under the Balochistan Revenue Authority Act, 2015 collected an amount of Rs. 2.358 billion on amount of GST service in Financial Year 2015-16, thus contributing almost 21% of the Provincial Receipts.

b. The Provincial Receipts for the Financial Year 2015-16 registered a new high of Rs. 11.38 billion representing an increase of 78% over the figure of Rs.6.397 billion collected in Financial Year 2014-15.

c. The Finance Department held regular quarterly review meetings with the provincial line departments particularly revenue generating departments for improving own source revenue. As a result, the revenue receipts collected during the 2nd half of the FY 2015-16 registered and increase of 100% against the proportionate figures as per budget estimates.

d. The Balochistan Board Of Investment has started functioning which will help attract private sector investment in the Province and contribute towards increased revenue for the Province.

e. Due to steps taken by the Government of Balochistan, the receipts under the Agriculture Income Tax increased from Rs.0.515 million in Financial Year 2014-15 to Rs.9.22 million in financial year 2015-16 representing an increase of almost 1700%.

f. The government of Balochistan has notified valuation tables for Quetta city for purpose of assessment of Property Taxes. This will stop leakages and increase collection of receipts.

5.3: Fiscal Discipline

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

Federal Government

Present Government inherited fiscal deficit above 8% of GDP. Through prudent fiscal measures i.e. increase in tax revenue and cut in current expenditure, deficit has been reduced by sustained level. For the year 2015-16 it was 4.6% of GDP, while for the year 2016-17 fiscal deficit is targeted at 3.8% of GDP. The following steps were taken in this regards:—

a. Restricted current and development expenditure (net after austerity measures) at the level of 20% of budget allocation for 1st and 2nd quarter and at the level of 30% each for 3rd and 4th quarter respectively of financial year except that releases on account of salaries and pension were made @ 25% of budget estimates for each quarter.

b. Revenue collection & expenditure were monitored on monthly basis.

c. Provincial revenues/expenditure were also monitored on monthly basis;

d. A complete ban was imposed on purchase of all types of vehicles both from current as well as development budget except operational vehicles of law enforcing agencies;

e. Creation of new posts was banned except those required for development projects and approved by the competent authority.

f. No re-appropriations were made from heads of budget relating to Employees Related Expenditure and utilities allocation.

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

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. Punjab Government is also focusing on the improvement in recovery of Agriculture Income Tax in the province. World Bank is also conducting a Study on AIT.

c. 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 revenues by plugging leakages and better administration/ reconciliation.

d. Government of Punjab has established four Commissionerates of the Punjab Revenue Authority (PRA) in Multan, Gujranwala, Faisalabad and Rawalpindi and a Camp Office at Murree for better administration and collection of sales tax on services. This step has certainly expected to enhance the receipts from sales tax on services substantially. Punjab Government is also proposing setting up of two more Commissionerates (Sargodha and Bahawalpur) in FY 2016-17.

e. Punjab Government has also launched Restaurant Invoice Monitoring Scheme (RIMS). RIMS has been linked with a lottery (Amanat Scheme) for encouraging customers to demand sales tax invoices from the service providers.

Government of Sindh

Cash Monitoring: The Government of Sindh through effective and efficient financial management has succeeded to contain its budget deficit showing a declining trend and improved cash balance position after 7th NFC. Finance Department monitors its cash balance with SBP on daily basis.

Government of Khyber Pakhtunkhwa

a. While considering the budget estimates 2015-16 the Provincial Cabinet approved certain guiding principles to curtail the recurring expenditure effective from 1st July, 2015.

b. In order to maintain financial discipline and in time availability of funds, the Government of Khyber Pakhtunkhwa with the approval of competent authority devised a release policy for current and development expenditures.

c. The cash balance of KPK Account No.1 maintained with State Bank of Pakistan remained in surplus over the period of report.

Government of Balochistan

a. Finance Debarment monitors its cash balance with State Bank of Pakistan on daily basis to ensure that he cash position remains within the ways and means limit. Government of Balochistan has maintained the revenue surplus as per the decision of Council of Common Interest (CCI).

b. The Provincial Government with the assistance of World Bank is reviewing overall Provincial Tax Governance Mechanism under the Governance Policy Project (GPP).

c. The government of Balochistan has undertaken Public Financial Management Project financed by the European Union to review the financial management system.

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Annex-I

REGISTERED No. M - 302 / 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.

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Annex-II

Provinces' Own Revenue Receipts (2015-16)

Position as on 30.06.2016

Rs in million

Function Code	DESCRIPTION	Punjab B.E.	Punjab Actual	Punjab % of BE	Sindh B.E.	Sindh Actual	Sindh % of BE	Khyber Pakhtunkhwa B.E.	Khyber Pakhtunkhwa Actual	Khyber Pakhtunkhwa % of BE	Balochistan B.E.	Balochistan Actual	Balochistan % of BE
B	Tax Revenue	160,571	149,479	93%	124,620	123,117	99%	22,595	13,073	[illegible]	3,600	4,285	119%
B01	Direct Taxes	35,849	34,359	96%	9,955	5,744	58%	3,801	3,178	1	437	619	[illegible]
B011	Tax On Income	2,300	1,387		650	360		1,000	65		10	91	
B013	Property Tax	10,320	8,638		4,445	1,319		351	376		95	92	
B014	Land Revenue	13,679	12,009		650	204		1,801	2,013		238	252	
B015	Workers Welfare Tax					53							
B016	Tax on Profession, Trades and Callings	770	637		410	350		464	248		3	3	
B017	Capital Value Tax on Immoveable Property	8,800	11,056		3,800	3,342			195		88	113	
B018&19	C.V.T (Moveable property)	-	632		-	116		385	281		3	68	
B02	Indirect Taxes	110,956	100,299	90%	81,000	77,932	96%	16,491	9,430	57%	3,078	3,654	119%
B023	Sales Tax on Svc GST	72,000	58,663		61,000	61,464		14,000	7,268		1,500	2,358	
B026	Provincial Excise	2,800	2,655		4,830	3,828		38	15		561	382	
B027	Stamps Duties	24,401	27,180		9,500	7,205		814	830		405	272	
B028	Motor Vehicles	11,755	11,801		5,700	5,435		1,639	1,317		612	641	
B029	Sale of Opium												
B03	Indirect Taxes-Others	13,766	14,821		33,665	39,441		2,303	465		85	12	
B030	Indirect Taxes-Others	13,766	14,821		33,665	39,441		2,303	465		85	12	
C	Non-Tax Revenue	44,694	33,358	74%	19,500	10,147	52%	31,831	45,816	144%	4,245	6,976	164%
C01	Income from Property & Enterprise	21,455	234	1%	1,200	95	8%	3,436	37,376	1088%	474	77	16%
C010	Profit & MSP	21,000						3,300	36,443				
C011	State Trading Schemes												
C013	Interest on Loans & Advance to District Govt/TMA	157	70		1,200			116				2	
C014	Interest on Loans to Financial Institutions	160	132		-	1					446		
C015	Interest on Loans Non-financial Institutions	132	27					3				46	
C016	Interest on Loans & Advance to Govt. Servants	1	0						1				
C018	Interest on Loans Others	6	5			3			51				
C019	Dividends					91		17	881		28	29	
C02	Receipt from Civil Administration and other Functions	9,640	9,645	100%	4,306	3,089	72%	3,645	3,134	86%	716	1,061	148%
C021	General Admin. Receipts Organisations of State	100	185		60	56		50	90		25	44	
C022	General Admin. Receipts Fiscal Administration	109	202		80	199		50	94		23	21	
C023	General Admin. Receipts Economic Regulations		148		500	114		127	19		9	17	
C026	Law and Order Receipts	4,326	3,903		2,055	1,756		1,543	1,286		293	691	
C027	Community Services Receipts	2,376	2,259		625	201		1,030	606		148	113	
C028	Social Services	2,029	2,228		930	720		845	1,010		165	175	
C029	Social Services Miscellaneous	700	721		56	43			29		53	5	
C03	Miscellaneous Receipts	13,599	23,279	171%	13,994	6,963	50%	24,750	5,306	21%	3,055	5,838	191%
C031	Economic Services Receipts Food & Agri.	643	662		368	70		217	198		343	468	
C032	Eco.Serv. Receipts Fisheries & Animal Husbandery	939	1,371		38	26		54	157		95	65	
C033	Economic Services Receipts Forest	640	916		188	179		7,825	380		84	49	
C034	Economic Services Receipts, Coooperation, Irrigation & Embankment Drainge Works	2,343	1,370		600	246		551	524		101	69	
C035	Economic Services Receipts Others	169	628		372	197	-	304	282		224	137	
C037	Extraordinary Receipts	2,774	4,011		4,200	859		1,451			15	414	
C038	Others	6,091	14,322		8,228	5,387		14,348	3,765		2,193	3,603	
C039	Others											1,033	
	Total (Own Receipts)	205,285	182,637	89%	144,120	133,264	92%	54,426	58,889	108%	7,845	11,260	144%

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