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

(January — June, 2017)

Government of Pakistan
NATIONAL FINANCE COMMISSION SECRETARIAT

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Government of Pakistan
National Finance Commission Secretariat

F.No.7(1)NFC/ 2017

20th December, 2018

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."*

2. 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.

3. The biannual monitoring report for the period from January to June, 2017 was approved by the Finance Ministers in the meeting held on 31st October, 2018, at Islamabad for laying before both Houses of the Parliament and Provincial Assemblies.

(Asad Umar)
Finance Minister
Government of Pakistan

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EXECUTIVE SUMMARY

This 2nd Biannual Monitoring Report on implementation of 7th NFC award covers the period from January to June, 2017 of Financial Year 2016-17. Total tax collection as reported by FBR remained Rs.1786.365 billion for the period under report. After subtracting non-divisible pool components and 1% each as collection charges and additionality for Khyber Pakhtunkhwa on account of War on Terror (WoT), the net divisible pool comes to Rs.1726.592 billion. The Provincial share comes to Rs.992.790 billion, leaving a balance of Rs.733.802 billion for Federal Government. The Provincial share has been distributed as Rs.513.670 billion to Punjab (51.74%), Rs.243.730 billion to Sindh (24.55%), Rs.145.145 billion to Khyber Pakhtunkhwa (14.62%) and Rs.90.245 billion to Balochistan (9.09%). Khyber Pakhtunkhwa got Rs.17.440 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.9.903 billion, Rs.57.038 billion and Rs.15.631 billion respectively was collected and transferred to the Provinces during January-June 2017. Similarly, an amount of Rs.5.663 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.6.552 billion on this account was released to Government of Sindh accordingly.

INTRODUCTION

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

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

b. Transfers of Royalties, Surcharge on Gas and Excise Duty on Gas to the Provinces as prescribed in the Award(Articles 5 & 6 of the Order).

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

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

e. Achieving 15% Tax to GDP ratio by 2014-15. To achieve this target, a path has been recommended by the NFC for both Federal and Provincial Governments (Clause 2 of Article 9 of the Order).

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

1.2 As provided under clause (3B) of Article 160 of the Constitution, the Federal and Provincial Finance Ministers have been mandated to monitor implementation of the Award biannually and lay 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

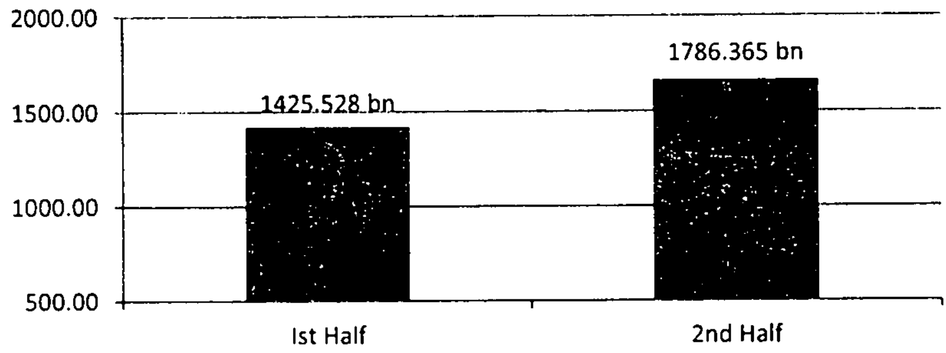
2.1.1 Federal Board of Revenues (FBR) reported the following tax collection for financial year 2016-17:

TABLE-I:Total FBR Collection during FY.2016-17

(Rs. in Billion)

A	Provisional collection reported on fortnightly basis during FY 2016-17	3052.687
B	Arrears worked out on receipt of final reconciled collection for FY 2015-16 reported in FY 2016-17	159.206
C	**Total Collection reported during FY 2016-17 (A+B)**	**3211.893**

2.1.2 The releases to the Provinces during the financial year 2016-17 were made on the basis of FBR collection amounting to Rs.3211.893 billion. Out of this collection, Rs.1425.528 billion was reported during first half (July to December, 2016) and Rs.1786.365 billion was reported during second half (January to June 2017) of the financial year 2016-17. 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.3173.995 billion against total tax receipts of Rs. 3211.893 billion. Gross divisible pool taxes for 2nd half of F.Y.2016-17 (January-June, 2017) come to Rs.1768.787 billion. A detailed breakup of non-divisible pool components is given as follows:

TABLE-II: Details of Non-Divisible Pool Components

(Rs. in Billion)

	FY2016-17	2nd half 2016 -17
Total Collection FBR Receipts	**3211.893**	**1786.365**
Less Non-Divisible Pool Components	**37.898**	**17.578**
WWF	20.923	7.967
GST on Services	1.530	1.185
Excise Duty on Natural Gas	11.000	5.778
Income Support Levy	(0.001)	(0.099)
Exp. Development Surcharge	4.446	2.747
Gross Divisible Pool Tax	**3173.995**	**1768.787**

2.3: Vertical Distribution

2.3.1 After subtracting the non-divisible pool components out of FBR taxes, net amount of divisible pool taxes is determined by deducting cost of collection. The entire proceeds are then distributed between the Federation and Provinces in accordance with the provisions of Articles 3 & 4 of the Order. The details of vertical distribution for entire Financial Year 2016-17 and 2nd half of FY-20016-17 (Jan-June 2017) are as follows:

TABLE-III: Vertical Distribution of Share For F.Y-2016-17

(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	**3173.995**	**44.610**	**3129.385**	**31.294**	**3098.091**	**1781.402**
Income Tax	1287.000	*25.740	1261.260	12.613	1248.647	717.972
Wealth Tax	-	-	-	-	-	-
Capital Value Tax	1.853	0.018	1.834	0.018	1.816	1.044
Sales Tax (Excl.GST on Services)	1245.884	12.459	1233.425	12.334	1221.091	702.127
Federal Excise (Excl. ED on NG)	165.286	1.653	163.633	1.636	161.997	93.148
Customs (Excl. Export Dev. Surcharge)	473.972	4.740	469.232	4.692	464.540	267.110

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

TABLE-IV: Vertical Distribution of Share For 2nd Half FY-2016-17 (January - June, 2017)

(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	**1768.787**	**24.755**	**1744.032**	**17.440**	**1726.592**	**992.790**
Income Tax	706.692	*14.134	692.558	6.926	685.633	394.239
Wealth Tax	-	-	-	-	-	-
Capital Value Tax	1.242	0.012	1.230	0.012	1.217	0.700
Sales Tax (Excl.GST on Services)	704.329	7.043	697.286	6.973	690.313	396.930
Federal Excise (Excl. ED on NG)	91.021	0.910	90.111	0.901	89.210	51.296
Customs (Excl. Export Dev. Surcharge)	265.503	2.655	262.848	2.628	260.219	149.626

* 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 2016-17 has been worked out as follows:

TABLE-V: Horizontal Distribution of Share For FY-2016-17

(Rs. in billion)

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	(100%)	(51.74%)	(24.55%)	(14.62%)	(9.09%)
Divisible Pool Taxes	**1781.403**	**921.698**	**437.334**	**260.442**	**161.929**
Income Tax	717.973	371.479	176.262	104.968	65.264
Wealth Tax	0.000	0.000	0.000	0.000	0.000
Capital Value Tax	1.044	0.540	0.256	0.153	0.095
Sales Tax (Excl.GST on Services)	702.127	363.281	172.372	102.651	63.823
Federal Excise (Excl. ED on NG)	93.148	48.195	22.868	13.618	8.467
Customs (Excl. Export Dev. Surcharge)	267.111	138.203	65.576	39.052	24.280

2.4.2 The table below presents the horizontal distribution of share for the 2nd half of FY 2016-17:

TABLE-VI: Horizontal Distribution of Share For 2nd Half of FY-2016-17 (Jan-Jun,2017)

(Rs in billion)

	Total	Punjab	Sindh	Khyber Pakhtunkh	Balochistan
	100%	51.74%	24.55%	14.62%	9.09% *
Divisible Pool Taxes	**992.790**	**513.670**	**243.730**	**145.145**	**90.245**
Income Tax	394.239	203.979	96.786	57.638	35.836
Wealth Tax	-	-	-	-	-
Capital Value Tax	0.700	0.362	0.172	0.102	0.064
Sales Tax (excl.GST on Services)	396.930	205.372	97.446	58.031	36.081
Federal Excise (excl. Excise Duty on NG)	51.295	26.540	12.593	7.499	4.663
Customs (excl. Export Dev. Surcharge)	149.626	77.417	36.733	21.875	13.601

*Released as per BE 2016-17

2.4.3 Khyber Pakhtunkhwa has been paid an amount of Rs.291.735 billion during F.Y.2016-17. Out of this an amount of Rs.162.586 billion was paid during the period under report i.e January-June, 2017. 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 2016-17 (Total)	2nd Half of FY 2016-17
Share in the Divisible Pool (14.62%)	260.442	145.145
1% War on Terror	31.294	17.440
Total:-	**291.736**	**162.585**

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 2016-17 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-VIII: Royalty on Crude Oil

(Rs in billion)

Period	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
(FY-2016-17) Full year	2.047	4.780	9.731	0.077	16.635
2nd half (FY-2016-17) (Jan. – June,2017)	1.322	2.446	6.127	0.008	9.903

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.2016-17

(Rs in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	1.127	21.251	4.981	5.253	32.612
Gas Dev. Surcharge	3.607	46.738	7.578	14.687	72.610

TABLE-X: Amount of Royalty on Natural Gas and GDS in 2nd Half Of FY.2016-17 (Jan-June, 2017)

(Rs in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.688	10.596	2.803	1.543	15.630
Gas Dev. Surcharge	2.596	36.420	6.245	11.779	57.040

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-2016-17(Full year)	0.361	7.605	1.205	1.609	10.780
2nd half (FY-2016-17) (Jan. – June,2017)	0.206	3.906	0687	0.864	5.663

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 2016-17, the provincial share in the divisible pool was Rs.1781.402 billion. Accordingly, the amount of said grant-in-aid comes to Rs.11.757 billion. The same has been paid to the Government of Sindh during FY-2016-17. Out of total Grant-in-Aid, Rs.6.552 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 Provincial Governments have established their own Revenue Agencies, and started collecting GST on Services at their own.

MISCELLANEOUS PROVISIONS OF PRESIDENT'S ORDER

5.1: Miscellaneous

5.1.1 Article-9 of the Order relates to miscellaneous recommendations. In this regard, clause 9(1) 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.2016-17 is as follows:

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

(Rs. in billion)

	B.E. 2016-17	Tax Receipt upto June, 2017	(%) over B.E.
Federal	**3956.123**	**3647.476**	**92 %**
of which FBR Receipts	*3621.000*	** 3361.046*	*93 %*
Provinces	**361.418**	**322.378**	**89 %**
Punjab	184.436	155.376	84 %
Sindh	154.013	144.593	94 %
Khyber Pakhtunkhwa	18.171	15.659	86 %
Balochistan	4.798	6.751	141 %

Note: Detail of provincial tax and non-tax receipt is at **Annex-II**.
* Includes ..... reported in FY 2017-18.

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

Improving Tax to GDP Ratio:

The lower tax revenue is the major challenge for the government, which leads to deficit budget and borrowings. The low Tax-GDP ratio is the outcome of lower tax revenues and hence an important issue in the taxation system of Pakistan. Currently, FBR's Tax-GDP ratio is 11.2% which is low as compared to the world's standard. Following are the major reasons of lower tax revenues & FBR's Tax-GDP ratio in the country:-

i) Narrow tax base;
ii) Agriculture, large number of services are out of net;

iii) Excessive exemptions and concessions;
iv) Large undocumented informal sector;
v) Weak Audit and enforcement;
vi) Low Compliance;
vii) Absence of tax compliant culture.

FBR has taken a number of policy and administrative reform measures to improve tax to GDP ratio. These reform measures have started paying dividends. On the one hand tax revenues improved substantially, while on the others, these reforms have brought significant improvements in the tax base by bringing under taxed and untaxed segments of economy into tax net. In last four years, 547,008 notices have been issued and resultantly, 216,765 returns have been enforced by the Directorate of Broadening of Tax Base (BTB). Successful implementation of differential taxation for non-filers has enhanced collection and filing. A number of distortionary concessions/exemptions have been withdrawn to provide level playing field to all the taxpayers. Moreover, the power of issuing SROs has been withdrawn from FBR to check possible misuse.

The major bottleneck in formulating and implementing an effective tax administration in Pakistan is the presence of huge undocumented sector. It presents arduous challenges in detection of taxable transactions and realization of due revenue for the state and has a plethora of serious policy implications. The natural policy response to this is to take measures to increase documentation in the economy for optimum taxation in the long run which are being done through difference policy and administrative interventions.

FBR is determined to continue the reform program more vigorously to further streamline the taxation system in the country and enhance resource mobilization efforts by:-

- Further broadening of tax base;
- Higher revenue growth through improved compliance;

- Improved FBR's tax to GDP ratio (from 10.6% to 15%);
- Facilitation of genuine taxpayers with the enhanced use of Information and Communication Technology;
- Discouraging the non-filers through differential taxation;
- Provide level playing field for all stakeholders through plugging of leakages in the system;
- Strengthening tax audit to create deterrence;
- IRS and Customs Modernization and Control;
- Administrative improvement Initiatives;
- Better human resource management;
- Promotion of tax culture in the country.

The Government is determined to provide better business environment by improving law and order situation, successfully tacking the issue of electricity and gas outages, reducing the corporate tax gradually and rationalizing tariff regime in customs.

More Open and Transparent Tax System

In order to bring an open and transparent tax system, FBR has undertaken automation of business process and risk analysis which include:-

- Iris, covering all business processes of income tax and sales tax to replace 37 Silo Systems;
- WeBOC, system of paperless customs clearance;
- Crest, return processing and desk audit system for sales tax
- Strive, system to check fake invoicing and input tax adjustment in sales tax

- ERS, Expeditious Refund System in sales tax;
- Electronic data Interchange with China and Afghanistan.

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 undertaken following initiatives for bringing a behavioral change in the society about the tax culture perception:

a. Tax Directory of Parliamentarians;

b. Establishment of Financial investigation Cell

c. Campaign against Tax Evaders.

Reforms in FBR:

The reform and restructuring of FBR is an ongoing process and government has introduced various reforms to make FBR a modern and efficient organization for optimization of tax revenues while promoting taxpayers' friendly environment. These include certain policy and administrative measures which are given as under:-

i) **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 transposed to the relevant laws.

ii) **Rationalization of Import Tariff and Corporate Tax Rates:**

iii) **Benami Transaction Law** (passed by Parliament).

iv) **Differential Taxation** (increasing the cost of doing business for Non-fillers).

v) **Adoption of CNIC as NTN** (for individual tax payers):

vi) **Broadening of Tax Base** (more than 264,539 income tax returns have been enforced from July, 2013 to January, 2018)

vii) **Queue Management System** (in sales tax refunds)

viii) **Strengthening Tax Audit** (travelling from random to parametric selection)

ix) **Addressing inadmissible input adjustment and illegal refunds in Sales Tax** (through automation like programs namely Crest and Strive).

x) **Automation of IT Exemption Certification**

xi) **Whistleblowers** (drive to detect tax evasion)

xii) **New Anti-Smuggling Strategy Introduced.**

xiii) **Establishment of Transfer Pricing Unit**

xiv) **Behavioral Change** (published Parliamentarians' and Taxpayers' Directory on FBR website for promoting transparency).

xv) **Taxpayers Facilitation and End-To-End Automation** (fully automated and integrated tax management system like Iris implemented).

xvi) **Human Resource Management.**

   a. Development of Job Description and Key Performance indicators

   b. Mandatory Training of Officers

xvii) **Stringent Enforcement**

It has been ensured that strict enforcement of tax laws may be made strictly to create deterrence. In this regard efforts have been made to persuade potential taxpayers to file returns. Resultantly, the number of tax filers has been raised to more than 1.4 million in tax year 2017.

xviii) **Rationalization of Jurisdiction for optimal Output** (corporate cases are consolidated under corporate RTOs/Zones and remaining jurisdictions are organized on territorial basis).

xix) **Coordination with AG Office** (for customizing SAP systems with the objective of ensuring proper collection/withholding of sales tax).

xx) **Establishment of tobacco enforcement network** (to counter illicit trade in cigarettes).

xxi) **Enhancement of Digital/E-Library from different sources.**

xxii) **Online access of Law Library Portal** (for Direct Tax Law and Sales Tax Law).

xxiii) **Launch of online verification services and Customer Relationship Management System** (for quickly addressing complaints of taxpayers).

xxiv) **Launch of online payment system.**

With the help of these initiatives, FBR is moving towards a more efficient tax system; facilitating taxpayers, promoting investment and broadening the tax base in the years to come.

Government of Punjab

a. Stamp duty @ 3% was being charged on the value of immovable property in case of transfer of a right or interest in housing sector *i.e.* cooperative housing societies/private housing societies etc. However, valuation tables notified by the District Collector under section 27-A was not applicable on such transfers. In order to safeguard the public revenue, Article 63-A of Schedule-I of the Stamp Act, 1899 meant for transfer of a right or interest relating to an immovable property has been inserted in section 27-A of the Act *ibid* so that the assessment of the land may be made according to the valuation table.

b. Section 29 of the Stamp Act, 1899 imposes responsibility as to who shall pay the stamp duty at the time of execution of the instruments. However, the instruments of contract (Article 22-A), Decree, Rule of a Court or an Order of a Court (Article 27-A), Gift (Article 33) and transfer of a right or interest relating to an immovable property in cooperative housing societies etc. (Article 63-A) were not included in section 29 of the Stamp Act, 1899, which caused ambiguity regarding the responsibility to pay the stamp duty. In order to remove this ambiguity, Article Nos. i.e. 22-A, 27-A, 33 & 63-A of Schedule-I have been included in section 29 of the Act ibid.

c. Stamp duty @ 3% was being charged (as on 30.6.2016) on the instrument of Power of Attorney if the same was executed for consideration but valuation tables were not applicable. Similarly, stamp duty of Rs.1200/- per instrument was charged when the Power of Attorney was executed for authorizing the agent to sell the property. The same rate of stamp duty has been proposed if the Power of Attorney is executed for consideration but the value shall be calculated according to the valuation table notified by the District Collector concerned. Moreover, the rate of Rs.1200/- has been substituted @ 2% of the value of the property according to the valuation table if it is executed between persons other than spouses or between one wife or widow and another wife or widow of the same husband, or between father, mother, son, daughter, grandparents, grandchildren or siblings. For the purpose Article 48(b), 48(bb) of Schedule I of the Stamp Act, 1899 has been inserted in Section 27-A of the Act ibid, so that the value of the property may be assessed according to the valuation table notified by the District Collectors under Section 27-A of the Stamp Act, 1899. This amendment shall discourage purchasers to register Power of Attorneys instead of registering sale deeds.

d. Government has levied property tax on vacant plots in order to increase tax base of the property tax, check speculative trade of real estate and improve supply of housing by discouraging retention of vacant plots for long periods of time and to strengthen local government tax base. The tax on vacant plots will be levied after two years of delivery of possession to the owner with some exemptions available in the UIPT Act, 1958.

e. To provide less expensive entertainment to the lower strata of the society, entertainment duty has been withdrawn from petty entertainments such as well of death, swings and magic shows.

f. To rationalize registration fee on vehicles and to provide ease to the taxpayers through lump sum and periodic payments is introduced.

g. The Government has levied with effect from 1 July 2016 a tax on imported motor cars above 1300 CC: the rate of tax shall be different for different categories of motor cars.

h. The rate of Capital Value Tax on Power of Attorney was Rs.100/- per square foot, which had created hardship for the public due to heavy taxation. To rationalize levy of taxes on power of attorney, the Stamp Duty @ 2% has been levied and Capital Value Tax on "Power of Attorney" has been abolished.

i. The operational experience gained by PRA during the preceding financial year has led to the proposal of some technical amendments in the Punjab Sales Tax on Services Act, 2012. The technical amendments relate to encouraging the use of banking channels, input tax credits, rationalization of pecuniary penalties for non-compliance with withholding provisions and strengthening of recovery provision. The amendments will further streamline the application of the Act and increase the efficiency of PRA and facilitation of the taxpayers.

j. In order to plug compliance gaps arising out of the diversities of services tax tariff interpretations, descriptions of a few taxable services has been made consistent with their definition provided in the relevant rules so that any ambiguity be removed and taxpayers have a clearer understanding of their tax obligations. Besides, three new services have been included under the tax net. These services include services provided by cosmetic and plastic surgeons and hair transplant services, services provided by warehouses and cold storages and related packaging and handling services. Inclusion of these new services will further broaden the tax base of Punjab sales tax and will be a continuation of the progress being made towards the eventual goal of a negative tariff list for Punjab sales tax.

k. The definition of value under Punjab Infrastructure Development Cess Act, 2015 has also been rationalized to make it consistent with the provisions of Customs Act, 1969.

Government of Sindh

a. GoS through effective and efficient financial management has succeeded to contain its budget deficient through fiscal measures for enhancement of provincial own receipts after 1st July 2016.

b. Special attention is being giver. to the interlinked action plans - Sindh Tax Revenue Mobilization Plan (STRMP) and Public Financial Action Plan to undertake wide - ranging tax reforms in the province to generate higher revenues for GoS.

c. Sindh Public Management Reform Program established for studies of tax policy analysis, coordination among the tax collection agencies and preparation of budget strategy paper is fully functioning for attaining maximum results. Public representatives are also provided sufficient opportunities to realize budget complexities through SPMRP.

d. Revenue collection & expenditure are monitored on regular basis. Provincial receipts & expenditure are being reconciled with federal and other relevant entities regularly.

e. Expenditure in Development / Non-development projects is being continuously monitored against the released amounts to avoid unnecessary parking of funds.

f. GoS is also focusing on the improvement in recovery of Agriculture Income Tax.

g. Computerization of Land Record has contributed to improved collection of stamp duty, registration fees & Capital Value Tax on land transfers.

h. Regular meetings are being held with revenue generating departments for improving own source revenue.

i. Sindh Revenue Board (SRB) has taken effective measures including reduction of tax rate in order to bring maximum people into the tax net and broaden the tax base.

j. The Debt Management Unit (DMU) is fully operational with professionally skilled staff which is actively involved in all debt related activities of Sindh Government, under directions of Provincial Finance Department.

k. Austerity measures have been taken to curtail unnecessary expenditures pertaining to creation of new posts, purchase of vehicles / luxury items, entailment of foreign visits / trainings on Government expenses.

l. GoS has also taken the initiation of Public Private Partnerships in pursing innovative modes of financing to attract the finances of the private sector for enhancement of funding for PPP Projects. To cite a few examples, various projects such as Hyderabad-Thatta - Mirpurkhas. Dual Carriageways, Jhirk Mullah Katiyar Bridge, National Institute of Child Health, Sindh Nooriabad Power Company, Sindh Ambulance Services have been completed under Public Private Partnership.

m. A Tax Reform Unit (TRU) has been established in the Finance Department aiming to attain an evidence - based and harmonized tax policy environment with sustainable grants in revenue mobilization.

n. The Budget Strategy Paper (BSP) FY 2015-16 to 2018-19 was also prepared and presented before the Sindh Cabinet well before the announcement of the Budget 2016-17.

Government of Khyber Pakhtunkhwa

a. Revision of UIP Tax.

b. Revision of Profession Tax.

c. Insertion of new service for Sale Tax on services.

Government of Balochistan

a. Government of Balochistan is striving to considerably expand its revenue base by fully tapping the Provincial Resource potential.

b. The automation of Board of Revenue, Excise and Taxation Department is being carried out.

c. The Balochistan Procurement Regulatory Authority has been finalized and started its function. It will be helpful to reduce the financial leakages and streamline the purchase.

d. The Balochistan Board of Investment has started functioning, which will help attract private sector investment in the province and contribute towards more revenues for the province.

e. Finance Department is holding regularly quarterly review meetings with the line departments for improving own source revenue.

f. Government of Balochistan has started collection of the General Sales Tax on Services through its own collection mechanism. (Balochistan Revenue Authority).

g. In addition to the above the Provincial Government with the assistance of World Bank is reviewing overall Provincial Tax Governance Mechanism through a group of experts for a comprehensive reform strategy. A Tax Policy Unit has already been notified in Finance Department.

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. In order to achieve the deficit target 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 of budget estimates.

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

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

d. 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. Ban on re-appropriations from heads of budget relating to Employees Related Expenditure and utilities allocation.

Government of Punjab

i. 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.

ii. 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.

iii. 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. In order to enhance the outreach and to tap the potential of Sales Tax on Services, Punjab Government is also proposing to set up its sub-offices at Sargodha, Sahiwal, Sialkot and Bahawalpur during the current financial year.

iv. Punjab Government has successfully launched Restaurant Invoice Monitoring Scheme. RIMS has been linked with a lottery (Amanat Scheme) for encouraging customers to demand sales tax invoices from the service providers. Punjab Government has also launched RIMS at District Faisalabad and in near future its scope will be launched at Rawalpindi District.

v. Punjab Government has also introduced a reduced rate scheme for beauty parlors, salons, beauty clinics etc, @ 5% without input tax adjustment and only for those who opt for installation of Invoice Monitoring System with the nomenclature of Beauty Parlors Invoice Monitoring Scheme (BIMS) and launching of a reward scheme both for the owners and customers who comply with the conditions of this scheme.

Government of Sindh

<u>Cash Monitoring</u>: GoS has committed not to go in the overdraft from the State Bank of Pakistan. The cash balance position of the Provincial Government with SBP is monitored on daily basis, which is improved due to effective & efficient financial management.

Government of Khyber Pakhtunkhwa

i. There shall be complete ban on creation of posts except posts required for Completed Developmental Projects.

ii. There shall be complete ban on treatment abroad on Provincial Government's expense.

iii. There shall be complete ban on purchase of new vehicles.

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

vii. **20%** cut shall be imposed on the **Non-Salary Budget**. Any relaxation of this cut will have to be approved by the Chief Minister.

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

ix. In order to maintain Financial Discipline and in time availability of funds, the Government of Khyber Pakhtunkhwa with the approval of competent authority devised a release policy for Current and Development expenditure

Government of Balochistan

i. Balochistan Government followed strict austerity measures to reduce expenditures on purchase of durable goods.

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

iii. Purchase of physical assets like air conditioners/ generator, computer, have been totally stopped and is being allowed only where need is most urgent.

iv. Foreign visits/ Training on government expensive have been curtailed.

v. Under the SAP system Government of Balochistan has been able to shift more that fifteen thousand pensioners from manual payment system through PPO to Direct Credit System. Similarly more than 95% of Salary Disbursement in the Province is being made through automated mechanism under HR Module of SAP system.

vi. Steps are being taken for streamlining the release of funds of local bodies by creating separate cost centers and making payments through SAP system.

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PART I

Acts, Ordinances, President's Orders and Regulations

GOVERNMENT OF PAKISTAN

MINISTRY OF LAW, JUSTICE AND PARLIAMENTARY AFFAIRS

Islamabad, the 10th May, 2010

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

PRESIDENT'S ORDER No. 5 of 2010

AN

ORDER

to provide for distribution of revenues and certain grants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ASIF ALI ZARDARI,
President.

SYED SULTAN AHMED,
Senior Joint Secretary.

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Annexure-II

Provinces' Own Revenue Receipts [2016-17]

Rs. in million

Function Code	DESCRIPTION	Punjab		Sindh		Khyber P' Khwa		Balochistan	
		B.E	Actual	B.E.	Actual	B.E.	Actual	B.E.	Actual
B	Tax Revenue	**184,436**	**155,376**	**154,013**	**144,593**	**18,171**	**15,659**	**4,798**	**6,751**
B01	Direct Taxes	42,956	29,062	10,710	6,304	2,955	2 326	488	700
B' 011	Tax On Income	2,300	876	650	466	88	69	10	28
B' 013	Property Tax	13,124	4,661	5,000	2,001	368	262	95	126
B' 014	Land Revenue	14,447	11,862	650	236	1,850	1 221	287	298
B' 015	Workers Welfare Tax	-	-	-	-	-	-	-	-
B' 016	Tax on Profession, Trades and Callings	810	663	410	355	264	244	3	3
B' 017	Capital Value Tax on moveable Property	12,274	10,455	4,000	3,246	385	359	90	97
B018&t19	C.V.T(Moveable property)	-	546	-	0	-	171	4	148
B02	Indirect Taxes	133,045	122,147	98,300	96,334	12,734	12,789	4,227	6,043
13' 023	Sales Tax on Svc GST	85,000	77,738	78,000	78,639	10,000	10,273	2,500	4,463
B' 026	Provincial Excise	2,920	2,706	4,800	3,489	42	24	446	443
B' 027	Stamps Duties	31,599	28,782	9,500	8,036	890	956	480	422
B' 028	Motor Vehicles	13,525	12,920	6,000	6,170	1,802	1,535	802	715
B' 029	Sale of Opium	-	0	-	-	-	-	-	-
B03	Indirect Taxes-Others	8,436	4,167	45,003	41,955	2,482	544	83	8
B030	Indirect Taxes-Others	8,436	4,167	45,003	41,955	2,482	544	83	8

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