REPORT ON 1ST BIANNUAL MONITORING ON THE IMPLEMENTATION OF NFC AWARD

(July – December 2014)

Government of Pakistan
NATIONAL FINANCE COMMISSION SECRETARIAT

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F.No.7(1)NFC/2015

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ISLAMABAD
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LETTER OF TRANSMITTAL

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

The 7th National Finance Commission Award was signed on 30th December, 2009 and its recommendations were given legal cover with effect from 1st July, 2010, through President's Order No.5 of 2010 (Distribution of Revenues and Grants-in-Aid Order, 2010). Clause 3(B) of Article 160 of the Constitution of Islamic Republic of Pakistan provides as follows:

> *"Federal Finance Minister and Provincial Finance Ministers shall monitor the implementation of the Award biannually and lay their report before both Houses of Majlis-e-Shoora (Parliament) and the Provincial Assemblies."*

In pursuance of the above provision, it is imperative upon the Finance Ministers of the Federal and Provincial Governments to monitor implementation of the Award biannually and lay a report before both Houses of the Parliament and Provincial Assemblies.

The bi-annual monitoring report for the period from July to December, 2014 was approved by the Finance Ministers in the meeting of 9th NFC held on 28th April, 2015, at Islamabad for laying before both Houses of the Parliament and Provincial Assemblies.

(Senator Mohammad Ishaq Dar)

Contents

INTRODUCTION

1.1 The NFC Award 2009 has been made applicable with effect from 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/ Constitution (Articles 5 & 6 of the Order).

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

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

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

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

1.2 As provided under clause (3B) of Article 160 of the Constitution, the Federal and Provincial Finance Ministers have to monitor implementation of the Award biannually and lay a report in this regard in both Houses of the Parliament and the Provincial Assemblies. As such, the implementation status of the above provisions of the President's Order, i.e., Distribution of Revenues and Grants-in-Aid Order has been explained in the following chapters.

DIVISION OF DIVISIBLE POOL TAXES

2.1 Articles 1 & 2 consist of title and definition of the Order and therefore no action warrants on these articles.

2.2 Articles 3 and 4 of the President's Order i.e. Distribution of Revenues and Grants-in-Aid Order, 2010 (Award) regulates the distribution of divisible pool taxes (FBR Taxes) between the Federal and Provincial Governments vertically and amongst the four provinces horizontally.

2.3: FBR Tax Receipts

2.3.1 Federal Board of Revenues (FBR) reported tax collection of Rs.1167.06 billion during the period from July to December,2014. Details are as follows:

Table-I

Rs. in billion

A	Provisional collection reported on fortnightly basis during the period of report i.e. July -December,2014.	1055.25
B	Arrears worked out on receipt of final reconciled collection for F.Y. 2013-14 reported and released in F.Y. 2014-15	111.81
C	Total Collection reported during the period of report (A+B)	1167.06

2.4: Distribution of Divisible Pool Taxes

2.4.1 The components of divisible pool taxes are laid down in clause (1) of Article 3 of the Order. Receipts of the FBR also include some non-divisible pool components. Therefore, after deducting such components, the gross divisible pool taxes were worked out to be Rs. 1136.94 billion against total tax receipts of Rs. 1167.06 billion. A detailed breakup in this regard is given as follows:

Table-II

Rs. in Billion

	1st half of 2014 -15
Total Collection FBR Receipts	**1167.06**
Less Non-Divisible Pool Components	**30.12**
WWF	15.22
GST on Services	1.87
Excise Duty on Natural Gas	5.65
Income Support Levy	0.02
Exp. Development Surcharge	2.99
Income Tax Paid out of the Federal Consolidated Fund	4.37
Gross Divisible Pool Tax	**1136.94**

2.5: Vertical Distribution

2.5.1 After subtracting the non-divisible pool components of FBR taxes, net divisible pool taxes is determined by deducting cost of collection and then entire proceeds are distributed between the Federation and Provinces in accordance with the provisions of Articles 3 & 4 of the Order. The details of vertical distribution are as follows:

Table-III

Distribution (July-December,2014)

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	**1136.94**	**11.41**	**1125.53**	**11.26**	**1114.27**	**640.71**
Income Tax	432.93	4.37	428.56	4.29	424.27	243.96
Wealth Tax	-0.05	0	-0.05	0	-0.05	-0.03
Capital Value Tax	0.50	0	0.50	0	0.50	0.28
Sales Tax (Excl.GST on Services)	510.80	5.11	505.69	5.06	500.63	287.87
Federal Excise (Excl. ED on NG)	59.16	0.59	58.57	0.59	57.98	33.34
Customs (Excl. Export Dev. Surcharge)	133.60	1.34	132.26	1.32	130.94	75.29

2.6: Horizontal Distribution

2.6.1 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. However, Article 3(2) of the Order also entitles province of Khyber Pakhtunkhwa to receive 1% of the net proceeds of undivided divisible pool taxes on account of losses on War on Terror. On this account, the Khyber Pakhtunkhwa province was paid an amount of Rs.11.26 billion during the period of report i.e. July - December, 2014. Similarly, Clause (3) of Article 4 of the 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. As this arrangement for Balochistan remains protected for all years of the Award, Federal Government paid an additionality of Rs.12.37 billion from its own resources based on annual budgetary projections during the period of report i.e. July - December, 2014. The details of horizontal distribution are as follows:

Table-IV

(Position of July-December,2014)

Rs. in billion

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	(100%)	(51.74%)	(24.55%)	(14.62%)	(9.09%)
Divisible Pool Taxes	**640.71**	**331.50**	**157.29**	***93.67***	**58.24**
Income Tax	243.96	126.22	59.89	*35.67*	22.18
Wealth Tax	-0.03	-0.01	-0.01	*-0.01*	0
Capital Value Tax	0.28	0.14	0.07	*0.04*	0.02
Sales Tax(Excl.GST on Services)	287.87	148.94	70.67	*42.09*	26.17
Federal Excise(Excl. ED on NG)	33.33	17.25	8.18	*4.87*	3.03
Customs(Excl. Export Dev. Surcharge)	75.30	38.96	18.49	*11.01*	6.84

Table-V

Releases to Khyber Pakhtunkhwa and Balochistan

(Rs in billion)

	1st half of 2014 -15
Khyber Pakhtunkhwa	
Share in the Divisible Pool (14.62%)	93.67
1% War on Terror	11.26
Total:-	**104.93**
Balochistan	
Share in the Divisible Pool (9.09%)	58.24
Additionality provided by Federal Government	12.37
Total:-	**70.61**

2.6.2 It may be added that the above releases 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 Order relates to the distribution of net proceeds of royalty on crude oil. The M/o Petroleum and Natural Resources is responsible for collection of this levy which is reported to Finance Division on monthly basis for onward transfer to provinces. Accordingly, entire net proceeds reported by M/o Petroleum and Natural Resources during the period of report i.e. July - December, 2014 were distributed amongst the provinces in accordance with said provision as follows:

Table-VI

Royalty on Crude Oil

Rs in billion

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
1st half (FY-2014-15) (July - December,2014)	2.670	5.709	9.479	0	17.858

3.2: Distribution of Gas Development Surcharge and Royalty on Natural Gas

3.2.1 Article 6 of the Order (Award) 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 on monthly basis 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 in accordance with said provision as follows:

Table-VII

1st Half (July - December, 2014) FY-2014-15

Rs in billion

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.671	12.094	1.825	5.024	19.614
Gas Dev. Surcharge	0.933	10.677	2.041	2.236	15.888

3.2.2 As per clause (2) of Article 6, GDS payable to Balochistan with effect from 01.07.2002 to 30.06.2010 was to be worked out subject to a maximum of Rs.10 billion which was to be paid to Balochistan province in five years. Federal Government has paid an amount of Rs.7.5 billion to Government of Balochistan during FY 2010-11, FY 2011-12, FY 2012-13 and FY 2013-14. This amount was worked out by M/o. P. & N.R which was accepted also by the government of Balochistan. No amount is payable on this account.

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 on monthly basis for onward transfer to provinces. Accordingly, net proceeds were distributed amongst the provinces in accordance with said provision as follows:

Table-VIII

Excise Duty on Natural Gas

Rs in billion

	Punjab	Sindh	Khyber Paktunkhwa	Balochistan	Total
1st half (FY-2014-15) (July - Dec.,2014)	0.213	3.939	0.654	0.733	5.539

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 period of report, the provincial share in the divisible pool was Rs.640.71 billion. Accordingly, said grant-in-aid was worked out to be Rs.4.23billion, which was paid to the Government of Sindh.

GENERAL SALES TAX ON SERVICES

4.1 General Sales Tax on Services (GSTS)

4.1.1 Through 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 on their own. However, Province of Balochistan maintained status-quo during the period of report i.e. July - December, 2014 and FBR continued to collect GST on Services on its behalf.

4.1.3 During the period from July to December,2014, an amount of Rs.0.488 billion was paid to Government of Balochistan.

MISCELLANEOUS PROVISIONS OF THE AWARD

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 of 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 Government and Provincial Governments would streamline their tax collection systems to reduce leakages and increase revenues through efforts to improve taxation in order to achieve a 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-IX

As % of GDP

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

5.2.2 As against the above recommended path, the tax receipts Federal and Provincial Governments during period of report i.e. July-December,2014 is as follows:

Table-X

(Rs in billion)

	B.E. 2014-15	Tax Receipt upto Dec.,2014	(%) over B.E.
Federal	**3129.21**	**1266.13**	**40.5%**
of which FBR Receipts	*2810.00*	*1167.06*	*41.5%*
Provinces	**294.67**	**93.79**	**31.8%**
Punjab	164.68	46.00	27.9%
Sindh	107.03	41.05	38.4%
Khyber Pakhtunkhwa	19.45	5.50	28.4%
Balochistan	3.51	1.22	34.8%

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

5.2.3 In pursuance, various steps taken by the Federal Government through FBR are reproduced as follows:

a) FBR has collected Rs.1171.9 billion as provisional collection during July - December, 2014-15 showing a growth of around 14% over the corresponding period of last year. The direct taxes have grown by 20.1%, sales tax around 7%, federal excise duty 11% and customs by 23%. The recent decline in prices of petroleum products and other sectors are adversely impacting the tax revenues.

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

5.2.4. In pursuance of Article 9 (2) of the Award, the Provincial Governments have also informed of their efforts, reproduced as follows:

Government of Punjab

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

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

iii. The Government has revised valuation list of properties as required under the Punjab Urban Immovable Property Tax Act, 1958, after a period of 13 years. This list has been enforced for the purpose of assessing and collecting the property tax w.e.f. 01.08.2014. Since last revision, rental values of properties have increased manifold, therefore, in order to rationalize increase in tax liability of the taxpayers, the Government intends to reduce the rate of tax from 20% to 5% and also increase the limit of Annual Value for grant of exemption to certain buildings and lands.

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

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

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

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

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

ix. Taxes have also been proposed on luxury imported vehicles and luxury houses for the purpose of providing cross subsidies. The tax recovered from palatial and luxury houses will be spent on provision of low cost housing to the poor.

Government of Sindh

- To rationalize sales tax structure, equating tax base in Sindh with that in Punjab and KPK and to remove certain tax anomalies and distortions, Sindh has levied sales tax on the services which were already liable to sales tax in other provinces but not taxable in Sindh. Certain Services such as those of technical, scientific and engineering consultants, tour operator (Hajj and Umrah tour packages shall remain exempted), manpower recruiting agents, share transfer agents, property dealers, fashion designers, interior decorators, rent-a car, automobile dealers, laundries and dry cleaners have now been included as taxable services in Sindh.

- Similarly, for removing certain tax anomalies and distortions, Government of Sindh has reviewed the existing Tax Schedule and exemptions on certain taxable services, like workshops for electric, electronic and computer equipments, car washing in service stations, fumigation, janitorial, cleaning and maintenance services, call centres, etc.

- The provisions of Withholding Tax Rules have been amended to exclude, from the list of eligible withholding agents, persons and institutions not residing in Sindh or having no place of business in Sindh. This will safeguard against loss of Sindh sales tax revenue.

- Revisions of rates of Stamp Duty on Affidavit, Memorandum of Agreement, Bank Guarantee, Bill of Landing, Letter of Credit and Bond.

- Enhancement of Storage Fee on the storage of rectified spirit in warehouses.

- Enhancement of Transfer Fee on Motorcycle and Commercial vehicles including Life Time Tax on Motorcycles/ scooters.

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

- The automation of Board of Revenue, Excise and Taxation Department, and Sindh Revenue Board is being carried out. The Land Administration and Revenue Management Information System (LARMIS) for the computerization of lands record in Sindh is one of such initiatives. Moreover, the focus is on capacity building of revenue generating departments.

- Sindh Tax Revenue Mobilization Plan (STRMP) is being established to undertake wide ranging tax reform in the province to increase tax receipts.

- Tax Reform Unit has also been established to undertake evidence based studies for tax policy analysis and to foster effective coordination between the tax collecting agencies in Sindh.

- To obtain 100% reconciliation of accounts at Provincial level, a Provincial Fiscal Monitoring Committee is working on reconciliation process of receipts & expenditure of the Administrative Departments on monthly basis.

Government of Khyber Pakhtunkhwa

(a) Broadening of Tax net of GST on Services as a result taxable service increased to 47.

(b) Revision/enhancement of rates of various Taxes:-

- UIP Tax
- Tax on Profession, Trade and Calling
- Stamp Duty
- Land Tax and Agriculture income Tax
- Capital Value Tax (CVT)
- Tobacco Development Cess
- Registration/Renewal fee under Pakistan Shops and Establishment Ordinance 1969
- Registration/Renewal fee of Power Crusher

(c) Revision of rates of various non-Tax items:-

- Admission/Tuition fee of Technical Education
- Boiler Inspection fee
- Admission/Tuition fee and library charges in respect of Higher Education Department
- Royalty on Minerals
- Forest Produce and licenses fee of Wildlife
- Registration fee of contractors of C&W, PHE, Irrigation and Food Departments
- Rout Permit, Bus stand and Parking fee
- Admission fee in Archeology/Museums, Registration/ Renewal fee and license fee of Tourism Wing
- Abiana
- Processing fee of cases in Service Tribunal

(d) An amount of Rs. 1088 million is estimated as additional revenue on account of above measures.

(e) The Provincial Revenue target (both Tax & Non-Tax) was raised from Rs.16920.519 million to Rs 28780.777 million for the financial year 2014-15 showing an increase of 70% as per following break up:-

(Rs. In Millions)

Description	BE 2013-14	RE 2013-14	Actual for the 2013-14	Budget Estimates 2014-15	%age increase RE 2013-14 over BE 2013-14	%age increase BE 2014-15 over BE 2013-14
Tax Receipt	10,287.588	12,637.810	10,479.930	19,452.809	22.8	89.1
Non-Tax Receipt	6632.931	8007.557	9,530.756	9,327.968	20.7	40.6
Total (Tax & Non-Tax)	16,920.519	20,645.367	20,010.686	28,780.777	22	70.1

(f) Moreover, receipt recovery is being monitored. The concerned departments were motivated to achieve the assigned targets.

(g) There are certain issues which are affecting the Provincial Revenue. These include non clearance of the collection of infrastructure Development Cess by the Federal Government, imposition of withholding Tax and claiming input tax adjustment by Telecom Sector. These issues need to be addressed by the Federal Government to improve the tax recovery of the Provincial Government.

Government of Balochistan

Measures to enhance the provincial revenue:

(a) The Balochistan Government is going to finalize its own Revenue Board to collect the General Sales Tax.

(b) The Balochistan Procurement Regulatory Authority has been finalized and started its function. It will be helpful to reduce the financial leakages and streamline the purchases.

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 are reproduced as follows:

(a) For the FY-2013-14 fiscal deficit was contained at 5.5% of GDP against budget estimates of 6.3%. The current financial year 2014-15, deficit has been estimated at 4.9% of GDP and it has been kept at the level of 2.2% of GDP at the end of December, 2014.

(b) Allocated resources for current expenditure and Development expenditure are being released as per mechanism/procedure as laid down in revised system of financial control and budgeting.

(c) Revenue collection and expenditure are monitored on monthly basis.

(d) Efforts are being made to avoid un-budgeted expenditure.

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

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

2. A pilot project has been launched in District Sialkot for automation of property tax record through GIS mapping of properties and conducting a door-to-door survey of properties. The result of the pilot project have established that automation of tax record; survey of properties to bring missing properties into tax net; expansion of this tax to extended areas of major cities; and, automatic system of tax demand are likely to bring a sizable increase to existing revenue collection from this tax. Completion of computerization in 6 districts will be done by June 2015 and further roll out of computerization in remaining 31 districts till Sept. 2015.

3. Punjab Government is also focusing on the improvement in recovery of Agriculture Income Tax in the province. The Punjab Government is also making certain amendments in the Schedules of Agriculture Income Tax. The Board of Revenue Punjab has issues 40,000 notices to potential tax payers.

Government of Sindh

- Government of Sindh has formulated and approved Public Financial Management Strategy based on principles of transparency, accountability, equity, fiscal discipline and efficiency in management and use of Public resources for improved service delivery and economic development. The elements of PFM Strategy include Medium Term Budgetary Framework, Output Based Budgeting, Integration of Current and Development Expenditure, Participative Budgeting, Payroll and Pension Audit, Increased use of SAP R/3 by Line Departments, Asset Recording and Internal Control, Expenditure Commitment Control, Improvement in Public Procurement Practices including design and development of e-procurement modules, Establishment of Internal Audit Mechanism in departments, Establishment of ICT based Dashboard for monitoring of Development Schemes and enhancing the effectiveness of Public Accounts Committee.

The Public Financial Management Reform Strategy

The objective of the PFM Reform Strategy is to ensure a public finance system that is based on the principles of transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development. The objective is linked to other reforms in the Government of Sindh which will target.

(i) Economic growth and poverty reduction to be achieved through policy based budgeting in order to realize three key strategic budgetary outcomes of aggregate fiscal discipline and sustainable budget balance; strategic allocation of resources; and the efficient use of the resources in service delivery to the province.

(ii) Rapid improvement of service delivery through performance contracts underpinned by the introduction and enforcement of performance and output based budgets within the Medium Term Budgetary Framework; and Promotion of principles of good governance so as to improve transparency, accountability and efficient controls. The PFM Reform Strategy will be instrumental in the fight against misuse and wasteful public spending, and in reducing/ eliminating opportunities for corruption.

2. Heading Reforms Group, Core Reforms Group and Strategic Reforms Group are being constituted to improve the financial management of the province. The World Bank has offered technical assistance for implementing the Plans.

➢ **The salient features of the Plan are:**

(a) Aiming to attain harmonized tax policy environment with sustainable growth in revenue mobilization.

(b) Tax receipts projections to increase from the current Rs. 91.37 billion to Rs. 200 billion in next three years.

(c) Budget-making to be made more participative and output based.

(d) Improving taxpayers' education and enhancing voluntary tax compliance.

(e) Maximum utilization of PIFRA connectivity – maximum automation to improve public service delivery.

(f) Capacity building at all levels of government machinery for efficiency and improved performance.

(g) Special focus on strengthening the capacity of the Tax Collecting Departments.

3. **Austerity Measures**

- ✓ Releases are linked with the Ways and Means position both for Development and Non-Development budget.

- ✓ Regular reconciliation of provincial receipts and expenditure with Accountant General Sindh, and Treasury/District Accounts Offices in Sindh.

- ✓ The principle that liabilities beyond budgetary authorization can not be incurred is being strictly implemented.

- ✓ Foreign visits/trainings on Government expenses have been curtailed.

4. **Cash Monitoring:** The cash balance position is being closely monitored with State Bank of Pakistan. The releases of funds are made on the basis of availability of cash in Non-Food Account No-1. Finance Department monitors its cash balance with SBP on daily basis and before issuing any advice for release of funds it ensures that cash position remains within the ways and means limit. Government of Sindh has developed a mechanism where releases are being monitored at three stages, so that expenditure remains within the available cash limits. This elaborate mechanism of monitoring helped Government of Sindh in keeping its cash balances within ways and means limit.

5. **Medium Term Budgetary Framework (MTBF).** Capacity Building Workshops for each MTBF department for preparation of budget under MTBF including underlying processes and strategies are be held. Group activities or practical exercises are also being conducted in the workshops. Series of Handholding support are also provided to all DDOs of MTBF departments for the finalization of budget estimates as per indicative budget ceilings.

6. **REFORMS PROGRAM WITH WORLD BANK (World Bank Education Program)** The Sindh Education Sector Project (SERP) of Pakistan supports the Government of Sindh's Medium Term Education Sector Reform Program (SERP). The financing framework of the SERP has been integrated with the MTBF to ensure the availability of the required financial resources, during the program period. Education department is one of the eight pilot departments, budgeting for which is done on the MTBF format. The EU is also working on education programs in Sindh.

7. **Project for Improvement of Financial Reporting and Auditing (PIFRA)** The PIFRA's objective is to improve the accuracy, comprehensiveness, reliability and timeliness of intra-year and year-end public expenditures. This project began in 1997, with the World Bank assistance, and is extended from time to time. The main feature of this program is the introduction and implementation of the New Chart of Accounts. The SAP/R3 was designed, as software for the, Integrated Financial Management Information System (IFMIS), which has been implemented across Pakistan. Accounting Policy and Procedural Manuals (APPM) replaced the old accounting manuals and the concept of performance and risk based audit was introduced.

8. **Procurement Authority support** The Sindh Government has made remarkable achievement in streamlining transparency, competition and value for money in procurements. Procurement rules, procedures and guidelines are in place. The Sindh Public Procurement and Regulatory Authority (SPPRA) is effectively playing its statutory role of regulating procurements in the province and providing dispute resolution mechanism. The Public Procurement Regulatory Authorities led by the Federal Public Procurement Regulatory Authority has got the National Procurement Strategy drafted. The strategy draws on the following thematic areas including the action Plan delineating short, medium and long term actions:

a. Legal framework
b. Institutional arrangement
c. Monitoring and oversight

d. Capacity Building of Procuring Agency and Suppliers

The above activities would focus to achieve the following objectives:

(a) Harmonization of procurement laws and procedures.

(b) Improving and updating laws, rules and procedures and making use of technology to facilitate transparency, fairness, competition and achievement of value of money.

(c) Improving governance and institutional capacity of PPRAs and procuring agencies.

(d) Strengthening monitoring and oversight capacity of procurement regulatory authority.

(e) Capacity building of procuring entities and suppliers.

Government of Khyber Pakhtunkhwa

(a) The Provincial Government has released Current and Development funds in 1st week of July 2014 as per approved release policy to observe fiscal discipline and to keep the expenditure within available fiscal space.

(b) Stringent economy measures have been adopted which include ban on purchase of vehicles, creation of new posts, slashing down current expenditure and other measures.

(c) PFM reforms such as MTBF and output based budgeting continued over the period.

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

(e) As per decision arrived at in the Council of Common Interest (CCI) meeting held on 31-07-2013, the Khyber Pakhtunkhwa will strive to give surplus of Rs.17 billion from increased revenue transfers. Accordingly, Government of Khyber Pakhtunkhwa kept surplus of more than Rs. 17 billion during last financial year 2013-14 and will strive to create adequate surplus at the close of financial year 2014-15, provided the budgeted revenues are transferred in full to this Province by the Finance Division, Government of Pakistan, Islamabad, and Net Hydel Profits by the WAPDA.

Government of Balochistan

Measures to curtail the expenditure:

(a) The Investment Board is also in final stages. Once it comes to its proper functioning, the burden of provident fund and pension fund will be borne by them and the financial space will be utilized for development and other activities.

(b) The posts created during the financial year 2014-15 are filled on the need and requirement basis to avoid the financial burden.

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List of Abbreviations

BTB	Broadening Tax Base
CVT	Capital Value Tax
DDO	Drawing and Disbursing Officer
DIV	Divisible
ED.	Excise Duty
EXCL	Excluding
FBR	Federal Board of Revenue
GDP	Gross Domestic Product
GDS	Gas Development Surcharge
GSTS	General Sales Tax on Services
IFMIS	Integrated Financial Management Information System
KPRA	Khyber Pakhtunkhwa Revenue Authority
LARMIS	Land Administration of Revenue Management Information Systems
MTBF	Medium Term Budgetary Framework
NFC	National Finance Commission
NG	Natural Gas
OZT	Octroi and Zilla Tax
PROV	Provincial
SAP	System Application Products
SERP	Sindh Education Sector Project
SPPRA	Sindh Public Procurement and Regulatory Authority
STRMP	Sindh Tax Revenue Mobilization Plan
WWF	Worker Welfare Fund

ANNEX-I

REGISTERED No. M - 302 / L.-7646

The Gazette of Pakistan

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ISLAMABAD, MONDAY, MAY 10, 2010

PART I

Acts, Ordinances, President's Orders and Regulations

GOVERNMENT OF PAKISTAN

MINISTRY OF LAW, JUSTICE AND PARLIAMENTARY AFFAIRS

Islamabad, the 10th May, 2010.

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

PRESIDENT'S ORDER NO. 5 OF 2010

AN

ORDER

to provide for distribution of revenues and certain grants

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

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

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

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

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

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

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

(b) "taxes on income" includes corporation tax but does not include taxes on income consisting of remunerarion 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;

(c) 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 be 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 maxirrium 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, 410.0 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 andProvincial 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 ofRevenues and Grants-in-Aid Order, 1997 (P. 0. No.1 of 1997), and the Distribution of Revenues and Grants-in-Aid, Order, 2010 (P. 0. 4 of 2010) are hereby repealed,

ASIF ALI ZARDARI,
President.

SYED SULTAN AHMED,
Senior Joint Secretary.

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Annex-II

Provinces Tax Receipts upto 31st December, 2014 [2014-15]

Function Code	DESCRIPTION	Pounjab		Sindh		Khyber P. Khaw		Balochistan	
		B.E.	Actual	B.E.	Actual	B.E.	Actual	B.E.	Actual
B	**Tax Revenue**	**164,680**	**45,996**	**107,025**	**41,054**	**19,453**	**5,523**	**3,509**	**1,223**
B 011	Tax On Income	2,019	226	600	86	79	24	1	—
B 013	Property Tax	9,877	3,906	4,800	66	223	153	183	31
B 14	Land Revenue	11,789	4,685	600	72	1,430	895	114	76
B 015	Workers Welfare Tax								
B 016	Tax on Profession Trades and Callings	783	319	400	186	230	59	3	—
B 017	Capital Value Tax on Imoveable Property	5,433	2,017	3,500	1,024	350	135	—	—
B 018 & 19	C. V.T (Moveable property)	—	151	—	10	—	47	4	2
B 023	Sales Tax on Svc GST	95,000	19,453	49,000	21,209	12,000	3,114	1,912	488
B 026	Provincial Excise	1,783	803	3,825	1,661	33	9	417	182
B 017	Stamps Duties	18,937	9,357	9,828	2,924	740	348	244	154
B 028	Motor Vehicles	11,805	4,555	5,160	1,839	1,206	499	551	284
B 029	Sale of Optum	—	—	—	—	—	—	—	—
B 030	Indurect Taxes Others	7.254	524	29,312	11,977	3,162	240	80	6

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