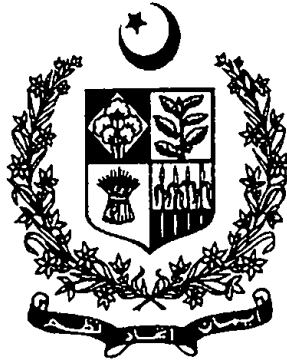




**REPORT ON
1ST BIANNUAL MONITORING ON
THE IMPLEMENTATION OF NFC AWARD**

(July - December 2015)

Government of Pakistan
National Finance Commission Secretariat



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

ISLAMABAD
30th August, 2016

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 – December, 2015 was approved by the Finance Ministers in the meeting held on 30th August, 2016, at Islamabad for laying before both Houses of the Parliament and Provincial Assemblies.

A handwritten signature in black ink, appearing to be 'M. Ishaq Dar'.

(Senator Mohammad Ishaq Dar)

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EXECUTIVE SUMMARY

This 1st Biannual Monitoring Report on implementation of 7th NFC award covers the period from July to December 2015 of Financial Year 2015-16. Total tax collection, as reported by FBR, remained Rs.1,448.789 billion for the period under report. After subtracting non-divisible pool components and 1% each as collection charges and additionality for KPK on account of War on Terror (WoT), the net divisible pool comes to Rs.1387.517 billion. The Provincial share comes to Rs.797.822 billion, leaving a balance of Rs.589.695 billion for Federal Government. The Provincial share has been calculated as Rs.412.793 billion to Punjab (51.74%), Rs.195.865 billion to Sindh (24.55%), Rs.116.642 billion to KPK (14.62%) and Rs.72.522 billion to Balochistan (9.09%). KPK and Balochistan got Rs.14.015 billion and Rs. 5.474 billion on account of WoT and additionality respectively.

On account of Royalty on Crude Oil, Gas Development Surcharge and Royalty on Natural Gas an amount of Rs.9.936 billion, Rs. 14.005 billion and Rs.20.654 billion respectively was collected and transferred to the provinces during July-Dec 2015. Similarly, an amount of Rs. 5.830 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 (OZT). An amount of Rs. 5.642 billion was released to Government of Sindh under this head accordingly. FBR is collecting GST on Services for Balochistan Province only. An amount of Rs.0.384 was collected on behalf of Balochistan and transferred to them, during the period under report.

INTRODUCTION

1.1 The 7th NFC Award came into force with effect from FY 2010-11 through a Presidential Order "*Distribution of Revenues and Grants-in-Aid Order 2010*" (Annex-I). The main responsibilities entrusted to the Federal and Provincial Governments through this Award are:

- a. Distribution of Divisible Pool Taxes between the Federation and Provinces and amongst the Provinces as prescribed in the Award (Articles 3 and 4 of the Order).
- b. Transfers of royalties, surcharge on gas and excise duty on gas to the Provinces as prescribed in the Award/Constitution (Articles 5 & 6 of the Order).
- c. Provision of obligatory grants to Provinces as prescribed in the Award (Article 7 of the Order).
- d. GST on Services (Article 8 of the Order).
- e. Achieving 15% tax to GDP ratio by the terminal year of the Award i.e. 2014-15. To achieve this target, a path has been recommended by the NFC for both Federal and Provincial Governments (Clause 2 of Article 9 of the Order).
- f. Maintaining fiscal discipline both at Federal and Provincial levels (Clause 3 of Article 9 of the Order).

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. Articles 1 & 2 of the President's Order consist of title and definition and therefore no action warrants on these Articles.

DIVISION OF DIVISIBLE POOL TAXES

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

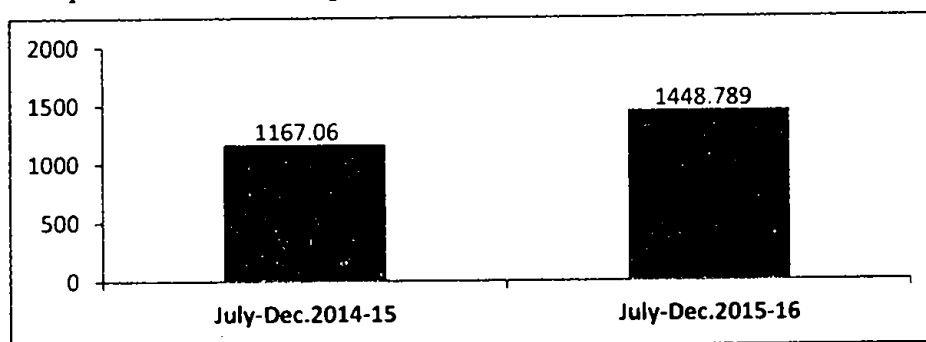
1.1: FBR Tax Receipts

1.1.1 Federal Board of Revenues (FBR) reported tax collection of Rs.1,448.789 billion during the period from July to December, 2015 (F.Y 2015-16). Details are as follows:

TABLE-I: Total FBR Collection (July - Dec., 2015)

(Rs. in billion)		
A	Provisional collection reported on fortnightly basis during the period of report i.e. July - December, 2015.	1,270.387
B	Arrears worked out on receipt of final reconciled collection for F.Y. 2014-15 reported and released in F.Y. 2015-16	178.402
C	Total Collection reported during the period of report (A+B)	1,448.789

1.1.2 The releases to the Provinces during the first half of the FY 2015-16 were made on the basis of FBR collection amounting to Rs.1,448.789 billion which shows healthy growth of 24% over the corresponding period of FY-2014-15. The following chart shows a comparison of tax receipts:



1.2: Distribution of Divisible Pool Taxes

1.2.1 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.1,415.746 billion against total tax receipts of Rs.1,448.789 billion. A detailed breakup in this regard is given as follows:

TABLE-II: Calculation of Gross Divisible Pool Tax

	(Rs. in billion)
	1 st half of 2015 -16
Total Collection FBR Receipts	1,448.789
Less Non-Divisible Pool Components	33.043
WWF	16.102
GST on Services	2.233
Excise Duty on Natural Gas	5.949
Income Support Levy	0.006
Exp. Development Surcharge	3.132
Income Tax Paid out of the Federal Consolidated Fund	5.621
Gross Divisible Pool Tax	1,415.746

1.3: Vertical Distribution

1.3.1 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: Vertical Distribution of Share (July-Dec, 2015)**(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	1415.746	14.214	1401.532	14.015	1387.517	797.822
Income Tax	556.496	5.621	550.875	5.509	545.366	313.585
Wealth Tax	-0.041	-0.001	-0.040	0	-0.040	-0.023
Capital Value Tax	0.807	0.008	0.799	0.008	0.791	0.455
Sales Tax (Excl. GST on Services)	602.251	6.023	596.228	5.962	590.266	339.403
Federal Excise (Excl. ED on NG)	74.772	0.748	74.024	0.740	73.284	42.138
Customs (Excl. Export Dev. Surcharge)	181.461	1.815	179.646	1.796	177.850	102.264

1.4: Horizontal Distribution

1.4.1 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 the President's Order. Provincial share against their percentages for the period from July-Dec 2015 has been worked out as follows:-

Table-IV: Provincial Share out of divisible Pool (July-Dec, 2015)**(Rs. in billion)**

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	(100%)	(51.74%)	(24.55%)	(14.62%)	(9.09%)
Divisible Pool Taxes	797.822	412.793	195.865	116.642	72.522
Income Tax	313.585	162.249	76.985	45.846	28.508
Wealth Tax	-0.022	-0.011	-0.006	-0.003	-0.002

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	(100%)	(51.74%)	(24.55%)	(14.62%)	(9.09%)
Capital Value Tax	0.454	0.235	0.112	0.066	0.041
Sales Tax (Excl. GST on Services)	339.403	175.607	83.323	49.621	30.852
Federal Excise (Excl. ED on NG)	42.138	21.802	10.345	6.161	3.830
Customs (Excl. Export Dev. Surcharge)	102.264	52.911	25.106	14.951	9.296

1.5 Additionality to Khyber Pakhtunkhwa & Balochistan.

1.5.1 Article 3(2) of the President's Order also entitles province of Khyber Pakhtunkhwa to receive 1% of the net proceeds of undivided divisible pool taxes on account of losses on WoT. On this account, the Khyber Pakhtunkhwa province was paid an amount of Rs.14.015 billion during July - December, 2015.

Table-V: Additional Funds to Khyber Pakhtunkhwa (WoT)

	(Rs. in billion)
	July-Dec., 2015 (F.Y 2015-16)
<u>Khyber Pakhtunkhwa</u>	
Share in the Divisible Pool (14.62%)	116.642
1% War on Terror	14.015
Total:-	130.657

1.5.2 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 during the currency of the Award, Federal Government paid an additionality of Rs.5.474 billion from its own resources based on annual budgetary projections during the period of report.

Table-VI: Additionality to Balochistan

(Rs. in billion)

	July-Dec., 2015 (F.Y 2015-16)
<u>Balochistan</u>	
Share in the Divisible Pool (9.09%)	72.522
Additionality provided by Federal Government	5.474
Total:-	77.996

STRAIGHT TRANSFERS/GRANTS-IN-AID

2.1: Distribution of Royalty on Crude Oil

2.1.1 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, 2015, were distributed amongst the provinces in accordance with the said provision, as follows:

Table-VII: Royalty on Crude Oil

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
1 st half (FY-2015-16) (July - December, 2015)	1.281	3.663	4.992	0	9.936

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

2.2.1 Article 6 of the President's 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-VIII: Royalty on Natural Gas and GDS (July - Dec., 2015)

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.694	13.079	2.185	4.696	20.654
Gas Dev. Surcharge	0.677	10.683	1.517	1.128	14.005

2.2.2 As per clause (2) of Article 6, Arrears of GDS payable to Balochistan with effect from 01.07.2002 to 30.06.2010 were worked out as amounting to Rs.7.5 billion which was paid to Government of Balochistan during FY 2010-11 to FY 2014-15. This amount was worked out by M/o. P.N.&R and this was accepted by the Government of Balochistan.

2.3: Distribution of Excise Duty on Natural Gas

2.3.1 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 the Finance Division on monthly basis for onward transfer to provinces. Accordingly, net proceeds Rs.5.830 billion were distributed amongst the provinces in accordance with said provision as follows:

Table-IX: Excise Duty on Natural Gas

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
July - Dec.,2015	0.181	3.768	0.668	1.213	5.830

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

2.4 Grants-in-Aid to Sindh Province

2.4.1 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 OZT. During the period of report, the provincial share in the divisible pool was Rs.797.822 billion. Accordingly, said grant-in-aid was worked out to be Rs.5.266 billion, however a sum of Rs.5.642 billion were paid to the Government of Sindh, which includes some arrears pertaining to FY 2014-15.

GENERAL SALES TAX ON SERVICES

3.1 General Sales Tax on Services (GSTS)

3.1.1 Government of Sindh, Punjab and Khyber Pakhtunkhwa have established their own Revenue Agencies and started collecting GST on Services by themselves. Government of Balochistan is in the process of setting up their own authority and for the time being FBR continues to collect GST on Services on their behalf.

3.1.2 During the period from July to December, 2015, an amount of Rs.0.384 billion was paid to Government of Balochistan under the head of GST on Services.

MISCELLANEOUS PROVISIONS OF PRESIDENT'S ORDER

4.1: Miscellaneous

4.1.1 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.

4.2: Streamlining Tax Collection

4.2.1 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 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-X: 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

	Benchmark	Projections				
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<i>FBR tax efforts</i>		1.00	0.90	0.80	0.70	0.55
<i>Provinces' tax efforts</i>		0.15	0.15	0.10	0.10	0.15

4.2.2 As against the above recommended path, the tax receipts Federal and Provincial Governments during period of report i.e. July - December, 2015 is as follows:

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

(Rs. in billion)

	B.E. 2015-16	Tax Receipt upto Dec., 2015	(%) over B.E.
Federal	3,418.221	1,516.678	44%
<i>of which FBR Receipts</i>	3,103.706	1,387.517	45%
Provinces	311.406	122.374	39%
Punjab	160.591	60.740	38%
Sindh	124.620	53.872	43%
Khyber Pakhtunkhwa	22.595	6.010	27%
Balochistan	3.600	1.752	49%

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

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

- a. FBR has collected Rs.1,384.9 billion as provisional collection during July-December, 2015 showing a healthy growth of 18.2%, over the corresponding period of financial year 2014-15. All the taxes have exhibited double digit growth.

- b. Tax to GDP ratio has improved marginally. In fact, it improved from 9% in 2013-14 to 9.5% in 2014-15.

Table-XII: Provisional Tax Collection (July-Dec., 2015)

			(Rs. In billion)
Fiscal Year	2015-16	2014-15	Growth(%)
Direct Taxes	540.8	458.9	17.8%
Sales Tax	591.0	5138	15.0%
FED	73.7	64.0	15.2%
Customs	179.4	135.2	32.7
Total	1384.9	1171.9	18.2%

- c. FBR has devised a comprehensive reforms program and strategy to enhance resource mobilization efforts in the country and enhance further tax to GDP ratio in the coming years. Main features of the reform plan are as under:-

(1) Broadening of Tax Base

For broadening of tax base several initiatives have been taken and some of which are in the pipeline. Initially the objective is to incorporate 300,000 new taxpayers. In this regard, 250,000 notices have already been issued.

(2) Withdrawal of Exemptions/Concessions

In order to remove distortions and discrimination in the income tax structure and to abolish unnecessary concessions, a plan for withdrawal of exemptions has been worked out. First two tranches of exemptions, amounting to Rs.104 billion and Rs.109 billion have been withdrawn in the budgets for FY 2014-15 and FY 2015-16. The remaining set of exemptions/concessions will be withdrawn in the forthcoming Budget.

(3) Taxpayers Facilitation

Introduction of an e-filing process accessible to taxpayers for income tax, sales tax and excise at e-FBR portal has been ensured. Automation of systems has helped in minimizing the contact between taxpayer and tax officers and as a consequence the complaint of harassment has been reduced accordingly.

(4) Strengthening Tax Audit

A new audit policy has been introduced with the aim to travel from random to risk based audit to accompany the self-assessment scheme and to overcome weak tax compliance. Substantial progress has been achieved for infrastructure up-gradation and development with the introduction of the integrated tax management system (iris), which is available to all the field formations.

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

Government of Punjab

4.2.5 Government of Punjab has taken following steps for streamlining of tax collection:

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

- b. Prior to 1st July 2015, immoveable property in urban areas valuing one million rupees was exempted from Capital Value Tax (CVT). This exemption on CVT was being widely misused by splitting the transactions to avoid taxation. Hence, the said exemption in subsection (5), in clause (a) in section 6 of Punjab Finance Act, 2010 (VI of 2010) has been done away with. This has brought progressivity in CVT and enhanced the equity on taxation on the immoveable property transactions.
- c. Education Cess on Clubs was levied through Punjab Finance Act, 2011, while Punjab Revenue Authority (PRA) also started collection of sales tax @ 16% on clubs since July, 2012 through an enactment. However, in order to avoid dual taxation of clubs by both Excise & Taxation Department and PRA the Government abolished Education Cess on clubs to prevent hardships to such clubs by omitting section 7 of Punjab Finance Act, 2011.
- d. Some technical amendments in the Punjab Sales Tax on Services Act, 2012 were made relating to the concept of forensic audit, harmonization of record maintenance provisions with the Federal Board of Revenue, rationalization of pecuniary penalties for non-compliance of provisions relating to compulsory registration and provision of information, introduction of prize schemes for the general public and rewards for whistleblowers. The amendments would work to further smoothen the application of the said Act to increase efficiency of Punjab Revenue Authority alongwith facilitation of the taxpayers.
- e. 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. Some statutory exemption threshold

criteria have been rationalized to forestall escape from tax liabilities in case of services which have traditionally remained out of tax net and are still reluctant to start compliance. With these changes, the disputes relating to services provided by consultants, information technology-based/enabled services, franchise services, share transfer agents and taxability of several allied services of taxable services of principal business domain, shall be resolved amicably. Besides, services provided through pipeline or conduit, inter-city carriage of goods and visa consultancy services which were being partially taxed as part and parcel of taxable services of other business domains have been separately enumerated.

- f. Besides, ten new such services were included under the tax net. These services include public relations services, services provided by chartered accountants, auditors, corporate law consultants etc., air travel and transportation of goods by air (previously being taxed by the Federal Government), chartered flights, hiring of equipment and machinery services, debt collection services, supply chain management services, photography services and sponsorship services. Inclusion of these new services have further brought equity to the Punjab sales tax base and also harmonize the service tax system of Punjab with other Provinces.
- g. The Government intends to mobilize more resources for the development of infrastructure in the Punjab. Sindh is collecting infrastructure development cess since 1994 and is now raising substantial funds for development purposes. Khyber Pakhtunkhwa too has imposed infrastructure development cess and is making necessary institutional arrangements in collaboration with Federal Board of Revenue to start its collection at the earliest. Punjab also has a great potential to generate good revenue income from infrastructure development cess. Those who use the infrastructural and ecological

facilities of the Punjab need to contribute for the further development of the Province. Punjab infrastructure development cess @ 0.90% has, therefore, been levied and collected in case of goods other than fresh food items imported into the Punjab and custom-cleared through ports, dry-ports, airports and other custom stations including bonded warehouses on the basis of their value assessed for the purpose of custom duties. The collection of the said development cess shall be made through the automated system of Pakistan Customs maintained and operated by PRAL (IT arm of FBR) under connectivity with the Punjab Revenue Authority's computer system. The collection of cess shall be made at the same time and in the same manner as is applicable to customs duties but it will be deposited under a separate head of account of the Punjab Government. The Punjab Revenue Authority will monitor the collection and payment of the development cess on real time basis.

Government of Sindh

4.2.6 Government of Sindh has reported that:

- a. The Sindh Government has been working on tax reforms in collaboration with World Bank. For this purpose, a Tax Reform Unit (TRU) has been established in Finance Department aiming to attain an evidence-based and harmonized tax policy environment with sustainable growth in revenue mobilization. The TRU maintains linkages with legislatures, revenue collecting agencies, academia and major stakeholders like Chambers of Commerce & Industries and Professionals. It organizes trainings, pre-budget seminars, conferences, workshops etc. Through these reform activities, it is expected that the total provincial own tax receipts would be augmented from existing Rs.124.6 billion to Rs.200.0 billion by 2017-18.

- b. The Sindh Government is further engaged in a number of other reform programs in partnership with international donors. These reforms focus on participative budgeting, out-put based budgeting - MTBF, up-gradation/strengthening of PIFRA, introduction of Internal audit in all departments, automation of PAC Secretariat, automation of Pensioners' data, strengthening of Bureau of Statistics, Sindh Public Procurement Regulatory Authority (SPPRA), public debt management and capacity building of Government Functionaries.
- c. The Debt management Unit (DMU) in Finance Department is now fully operational with professionally skilled staff. The DMU is actively in all debt related activities of Sindh Government under direction of the Provincial Finance Department. It has a close coordination with Planning and Development Department, Finance Division, Economic Affairs Division, State Bank of Pakistan, Accountant General Sindh and District Account/Treasury Offices in Sindh and other stakeholders.
- d. Budget Strategy Paper (BSP) FY 2015-16 to 2017-18 has been prepared and presented before the Sindh Cabinet well before the announcement of Budget 2015-16. Aim of BSP is to apprise the Cabinet well in advance the existing fiscal position and challenges and seek guidance.
- e. Since FY 2014-15, the quarterly review of financial position is being presented before the Sindh Assembly for general discussion.
- f. Austerity Measures have been taken to curtail unnecessary expenditures, in relaxation of rules, involving creation posts, purchase of vehicles and all luxury items, curtailment of foreign visits/trainings on Government expenses. Moreover, all releases were linked with the Ways and Means position.

- g. To bring in the expertise & efficiencies of the private sector for the cost-effective and quality development of the public sector, the GoS has taken the initiative of Public Private Partnerships in pursuing innovative modes of financing to attract the finances of the private sector for enhancement of funding for PPP projects.

Government of Khyber Pakhtunkhwa

4.2.7 Government of Khyber Pakhtunkhwa has taken following measures for streamlining of tax collection:

- a. Broadening of Tax net of GST on Services as a result taxable services increased from 48 to 57.
- b. Revision/enhancement of rates of various taxes:-
 - o Revision of Urban Immoveable Property Tax.
 - o Revision of rates of Motor Vehicle Bargain Centers and Real Estates Agents.
 - o Revision of fee for change of Body Type of Motor Vehicles.
 - o Revision of rate of Token Tax.
 - o Revision of rate of Spirit Permit fee and licenses.
 - o Revision in the rate of various permit fee, stand fee and parking fee etc.
- c. The Provincial Revenue targets (tax receipts) has been enhanced from Rs.19452.809 million to Rs.22594.500 million showing an increase of 16.2% with actual realization of receipt of Rs.5966.085 million up to December, 2015.
- d. Low collection of tax receipts during the 1st six months of current financial year is due to non collection of Infrastructure Development Cess for which clearance from Federal Board of Revenue is awaited. Further Electricity Duty due for payment to Provincial Government has not been paid by the Federal Government/PESCO.

Government of Balochistan

4.2.8 Government of Balochistan has reported following measures with regards to streamlining of tax collection:

- a. Government of Balochistan has started collection of the General Sales Tax on Services through its own collection mechanism (Balochistan Revenue Authority).
- b. Finance Department is holding regular quarterly review meetings with the line departments particularly revenue generating departments for improving own source revenue. The actual revenue receipts of the first half against the proportionate figures as per budget estimates remain satisfactory.
- c. 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. The report of the experts is expected by end of FY 2015-16.
- 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.

4.3: Fiscal Discipline

4.3.1 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. Human Resource Management

Human Resource Management has been improved and major structural initiatives are being taken by FBR in its organizational reform program.

b. End to end automation

An integrated customs clearance system (WeBOC) has already been rolled out. Furthermore, a new integrated and highly configurable and customizable system (iris) has been designed and introduced to cover all the business processes of income tax and sales tax. Moreover, return processing and assessment system for Sales Tax (CREST) is already in place to check inadmissible refunds and fake invoicing.

c. Stringent enforcement

It has been ensured that 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 increased to one million.

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

Government of Punjab

- a. Punjab Government followed strict austerity measure to reduce expenditure on purchase of durable goods. Purchase of all durable goods was subject to clearance of the high level austerity committee headed by the Finance Minister.
- b. Punjab Government is also focusing on the improvement in recovery of Agriculture Income Tax in the province. World Bank is also conducting a Study on AIT.
- c. Government of Punjab has initiated the project of Automation of Stamp Papers (e-stamping) to revamp the existing system of collection of stamp duty. This is a step towards citizens' facilitation and transparency in collection mechanism and will prove the increase the revenues by plugging leakages and better administration/ reconciliation.

- d. Government of Punjab has established four Commissionerates of the Punjab Revenue Authority (PRA) in Multan, Gujranwala, Faisalabad and Rawalpindi and a Camp Office at Murree for better administration and collection of sales tax on services. This step has certainly expected to enhance the receipts from sales tax on services substantially. Punjab Government is also proposing setting up of two more Commissionerates (Sargodha and Bahawalpur) in FY 2016-17.
- e. Punjab Government has also launched Restaurant Invoice Monitoring Scheme (RIMS). RIMS has been linked with a lottery (Amanat Scheme) for encouraging customers to demand sales tax invoices from the service providers.

Government of Sindh

Cash Monitoring: The 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 to improve its cash balances and now it is indicating a healthy sign.

Government of Khyber Pakhtunkhwa

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

- b. In order to maintain financial discipline and in time availability of funds, the Government of Khyber Pakhtunkhwa with the approval of competent authority devised a release policy for current and development expenditures.
- c. The cash balance of KPK Account No.1 maintained with State Bank of Pakistan remained in surplus over the period of report.

Government of Balochistan

- a. Government of Balochistan has taken serious measures to curtail expenditure within the budget. During the period July 2015 to December, 2015 all out efforts were made to maintain cash surplus as per understanding with the Federal Government and in this respect the Government of Balochistan has been quite successful during first half of the current financial year 2015-16.
- b. Government of Balochistan with the assistance of World Bank has already initiated PEFA Assessment to assess the PFM baseline and development reform strategy following completion of the PEFA Assessment.
- c. Under the AP system the Government of Balochistan has been able to shift more than fifteen thousand pensioners from manual payment system through PPD to DCS (Direct Credit System), thus reducing overpayment/pilferage in pension payments and ghost pensioners. Similarly, more than 95% of the salary disbursement in the province is being made through automated mechanism under H Module of SAP system.

The Gazette  **of Pakistan**

**EXTRAORDINARY
PUBLISHED BY AUTHORITY**

ISLAMABAD, MONDAY, MAY 10, 2010

PART I

Acts, Ordinances, President's Orders and Regulations

GOVERNMENT OF PAKISTAN

MINISTRY OF LAW, JUSTICE AND PARLIAMENTARY AFFAIRS

Islamabad, the 10th May, 2010

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

PRESIDENT'S ORDER No. 5 of 2010

AN

ORDER

to provide for distribution of revenues and certain grants

WHEREAS in pursuance of clause (1) of Article 160 of the Constitution of the Islamic Republic of Pakistan hereinafter referred to as the Constitution, the President, by the Finance Division's Notification No. S.R.O. 739(1)/2005 dated 21st July 2005, as modified by the said Division's Notification No. S.R.O. 693(1)/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;

(389)

Price : Rs. 5.00

[2438(2010)/Ex. Gaz.]

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

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

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

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

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

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

(b) “taxes on income” includes corporation tax but does not include taxes on income consisting of remuneration paid out of the Federal Consolidated Fund.

3. **Distribution of revenues.**—(1) The divisible pool taxes in each year shall consist of the following taxes levied and collected by the Federal Government in that year, namely:—

(a) taxes on income;

(b) wealth tax;

(c) capital value tax;

(d) taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed;

(e) export duties on cotton;

(f) customs-duties;

(g) federal excise duties excluding the excise duty on gas charged at well-head; and

(h) any other tax which may be levied by the Federal Government.

(2) One 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.

Provinces' Own Revenue Receipts (2015-16)

Position as on 31-12-2015

Function Code	DESCRIPTION	Punjab			Sindh			Khyber P. Khwa			Balochistan		
		B.E.	Actual	% of BE	B.E.	Actual	% of BE	B.E.	Actual	% of BE	B.E.	Actual	% of BE
B	Tax Revenue	160,591	60,740	38%	124,620	53,872	43%	22,593	6,010	27%	3,600	1,752	49%
B01	Direct Taxes	35,869	14,831	41%	9,953	2,424	24%	3,801	1,403	37%	437	248	61%
B 011	Tax On Income	2,300	407		650	109		1,000	31		10	19	
B 013	Property Tax	10,320	4,267		4,445	463		351	263		183	43	
B 014	Land Revenue	13,679	5,077		650	97		1,801	853		238	107	
B 015	Workers Welfare Tax					52							
B 016	Tax on Professions, Trades and Callings	770	377		410	207		264	75		3		
B 017	Capital Value Tax on Immoveable Property	8,800	4,461		3,800	1,489		385	107			65	
B01819	C.V.T.(Moveable property)		242			7			74		3	34	
B02	Indirect Taxes	110,957	43,795	39%	81,000	35,815	44%	16,491	4,421	27%	3,078	1,479	48%
B 022	Sales Tax on Svc GST	72,000	25,668		61,000	28,391		14,000	3,471		1,500	904	
B 026	Provincial Excise	2,800	1,158		4,800	1,756		38	4		561	191	
B 027	Stamps Duties	24,401	11,219		9,500	3,331		814	336		406	115	
B 028	Motor Vehicles	11,756	5,750		5,700	2,337		1,639	610		611	269	
B 029	Sale of Opium												
B03	Indirect Taxes-Others	13,765	2,114		33,665	15,633		2,303	186		85	5	
B030	Indirect Taxes-Others	13,765	2,114		33,665	15,633		2,303	186		85	5	
C	Non-Tax Revenue	44,846	15,698	35%	19,500	2,542	13%	48,945	10,944	22%	4,247	2,087	49%
C01	Income from Property & Enterprises	21,455	31	0%	1,200	53	4%	20,372	7,674	37%	479	4	1%
C010	Profit & NP	21,000						20,436	7,650				
C011	State Trading Schemes												
C012	Advance to District	157	28		1,199								
C04	Interest on Loans to Financial Institutions	160						46			447	2	
C05	Interest on Loans Non-Financial Institutions	132	1					28					
C06	Interest on Loans & Advance to Govt. Servants				1			2	1				
C08	Interest on Loans Others	6	2			3		40	23				
C019	Dividends					50		20			28	2	
C02	Administration and other	9,792	4,715	48%	4,306	1,152	27%	3,306	1,457	44%	716	711	99%
C021	General Admin. Receipts-Organizations of State	100	125		60	39		50	24		25	32	
C022	General Admin. Receipts-Fiscal Administration	109	70		135	107		140	36		23	4	
C023	General Admin. Receipts-Economic Regulators	152	59		500	93		17	9		9	5	
C026	Law and Order Receipts	4,326	1,680		2,055	524		1,232	597		284	521	
C027	Community Services Receipts	2,376	1,297		625	78		1,030	285		147	53	
C028	Social Services	2,029	1,170		882	308		797	495		163	93	
C029	Social Services Miscellaneous	700	314		49	3		40	11		53	3	
C03	Miscellaneous Receipts	13,599	10,952	81%	13,994	1,337	10%	25,087	1,813	7%	3,056	1,372	45%
C031	Economic Services Receipts-Food & Agr.	643	227		368	19		217	45		343	76	
C032	Economic Services Receipts-Forest & Animal	939	593		38	10		205	73		95	23	
C033	Economic Services Receipts-Forest	640	435		188	52		7,847	90		84	21	
C034	Economic Services Receipts-Economic Services Receipts, Co-operation, Irrigation & Embankment	2,343	406		600	22		551	135		101	32	
C035	Economic Services Receipts-Others	169	533		372	42		237	69		225	55	
C037	Extraordinary Receipts	2,774	3,413		4,200	426					15	7	
CA38.0	Others	6,091	5,345		8,228	766		16,030	1,401		2,193	1,168	
	Total (Own Receipts)	205,437	76,438	37%	144,120	56,414	39%	71,540	16,954	24%	7,647	3,839	49%