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

(July — December, 2016)

Government of Pakistan
NATIONAL FINANCE COMMISSION SECRETARIAT

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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 July to December, 2016 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 1st Biannual Monitoring Report on implementation of 7th NFC award covers the period from July to December 2016 of Financial Year 2016-17. Total tax collection, as reported by FBR, remained Rs.1425.528 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.1371.499 billion. On the basis of vertical distribution the Provincial share comes to Rs.788.612 billion, and the balance of Rs.582.887 billion for Federal Government. The Provincial share has been calculated as Rs.408.028 billion to Punjab (51.74%), Rs.193.604 billion to Sindh (24.55%), Rs.115.295 billion to Khyber Pakhtunkhwa (14.62%) and Rs.71.683 billion to Balochistan (9.09%). Khyber Pakhtunkhwa and Balochistan got Rs.13.853 billion and Rs.20.267 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.6.732 billion, Rs.15.571 billion and Rs.16.982 billion was transferred to the provinces respectively during July-Dec 2016 after deducting 2% collection charges. Similarly, an amount of Rs.5.117 billion has been transferred, on account of excise duty on Natural Gas 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 out of 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.5.205 billion was released to Government of Sindh under this head.

INTRODUCTION

1.1 The recommendations of the 7th NFC (Award), concluded on 31th December, 2009, were given legal cover through President's Order No.5 of 2010 *"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. Entrusting collection powers of GST on Services to Provinces (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 Clause (3B) of Article 160 of the Constitution empowers the Federal and Provincial Finance Ministers to monitor implementation of the Award biannually and lay a report in this regard in both Houses of the Parliament and the Provincial Assemblies. This 1st Biannual report presents the implementation status of the above provisions of the President's Order for the period from July to December, 2016. 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 (vertical distribution) and amongst the four Provinces (horizontal distribution).

2.1: FBR Tax Receipts

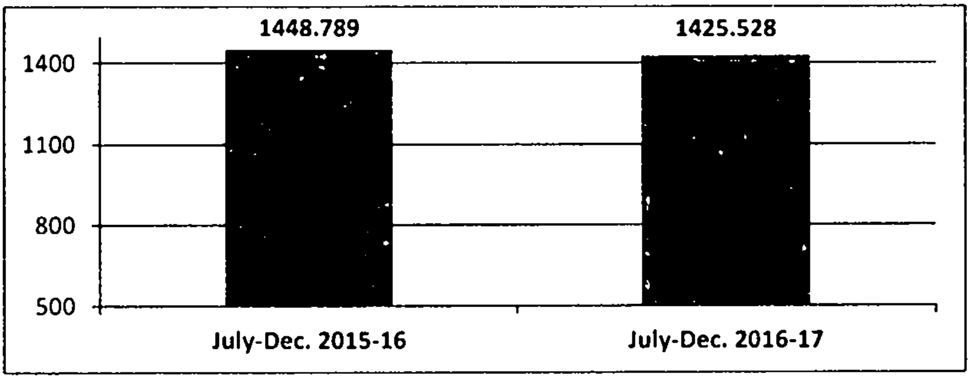
2.1.1 Federal Board of Revenues (FBR) reported tax collection of Rs.1425.528 billion from July to December, 2016 (F.Y 2016-17), as presented in the following table:

TABLE-I: Total FBR Collection (July - Dec., 2016)

(Rs. in billion)

A	Provisional collection reported on fortnightly basis during July - December, 2016.	1266.141
B	Arrears worked out on receipt of final reconciled collection for F.Y. 2015-16 reported and released in F.Y. 2016-17	159.387
C	Total Collection reported during the period of report (A+B)	1425.528

2.1.2 The Provinces were released funds on the basis of FBR collection during the 1st half of the FY 2016-17 amounting to Rs.1425.528 billion, which shows nominal decrease of 1.62%, as compared to Rs.1448.789 billion, relating to the corresponding period of FY-2015-16. The following chart shows a comparison of tax receipts:



2.2: Distribution of Divisible Pool Taxes

2.2.1 Article 3 (1) of the President's Order explain component of divisible pool taxes. 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.1405.208 billion against total tax receipts of Rs.1425.528 billion. A detailed breakup in this regard is given as follows:

TABLE-II: Calculation of Gross Divisible Pool Tax

(Rs. in billion)

	1st half of 2016 -17
Total Collection FBR Receipts	**1425.528**
Less Non-Divisible Pool Components	**20.320**
WWF	12.956
GST on Services	0.345
Excise Duty on Natural Gas	5.222
Income Support Levy	0.098
Exp. Development Surcharge	1.699
Gross Divisible Pool Tax	**1405.208**

2.3: Vertical Distribution

2.3.1 After subtracting the non-divisible pool components out of FBR receipts, net divisible pool is determined by deducting cost of collection (1%) 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:

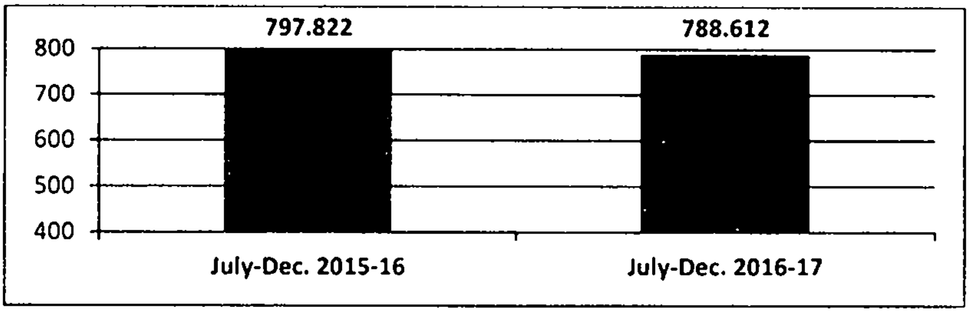
Table-III: Vertical Distribution of Share (July-Dec., 2016)

(Rs. in billion)

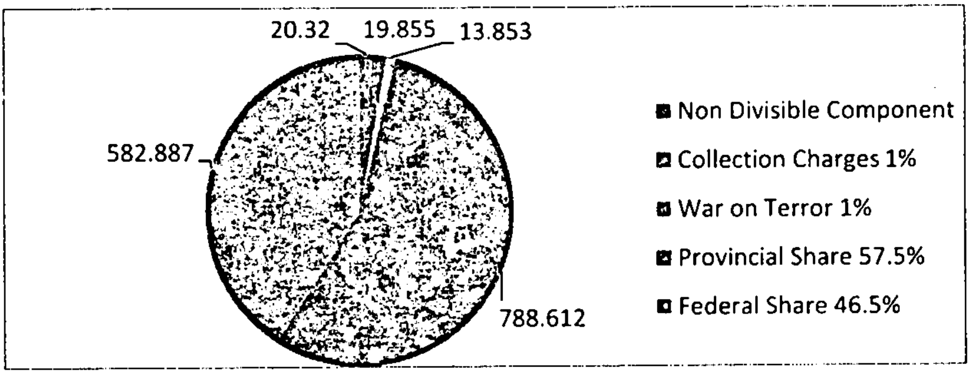
	Receipts	Collection Charges (1%)	Net Div. Pool Taxes	1% WoT for Khyber P'Khwa	Balance Net Div. Pool	Prov. Share (57.5%)
Divisible Pool Taxes	**1405.208**	**19.855**	**1385.352**	**13.853**	**1371.499**	**788.612**
Income Tax	580.308	*11.606	568.702	5.687	563.015	323.734
Wealth Tax	0	0	0	0	0	0
Capital Value Tax	0.611	0.006	0.605	0.006	0.599	0.344
Sales Tax (Excl.GST on Services)	541.555	5.416	536.139	5.361	530.778	305.197
Federal Excise (Excl. ED on NG)	74.265	0.743	73.522	0.735	72.787	41.853
Customs (Excl. Export Dev. Surcharge)	208.469	2.085	206.384	2.064	204.320	117.484

* Includes deduction of Income Tax paid out of Federal Consolidated Fund.

2.3.2 During 1st half of FY 2015-16, an amount of Rs.797.822 billion was transferred to the Provinces while the amount transferred during the period under report comes to Rs.788.612 billion which shows nominal decrease of 1.16%. Following chart shows comparison of Provincial Transfers:-



2.3.3 Following Pie Chart shows the distribution of Total Tax Collection:-



2.4: Horizontal Distribution

2.4.1 Article 4(2) of the President's Order provides percentage share of each Province in the Provincial share, out of divisible pool taxes. Provincial share against their percentages for the period from July-December, 2016 has been worked out as follows:-

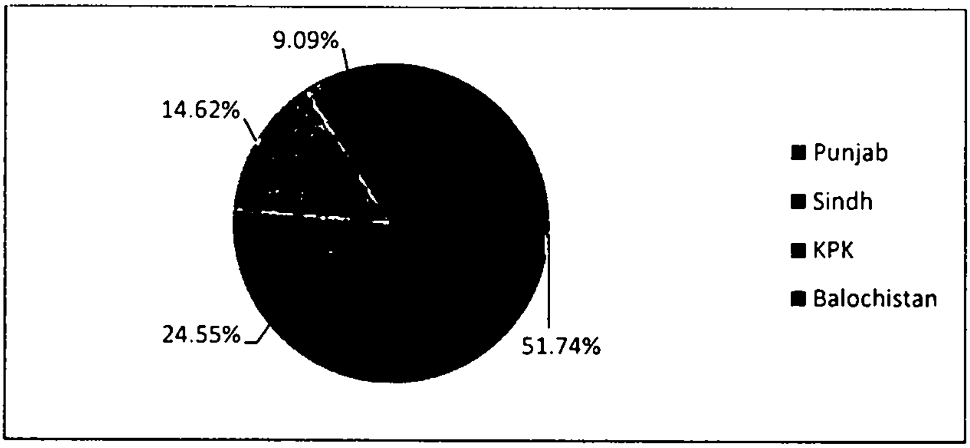
Table-IV: Provincial Share out of Divisible Pool (July-Dec., 2016)

(Rs. in billion)

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	(100%)	(51.74%)	(24.55%)	(14.62%)	(9.09%)
Divisible Pool Taxes	**788.610**	**408.028**	**193.604**	***115.295***	**71.683**
Income Tax	323.734	*167.500	79.477	*47.330*	29.427
Wealth Tax	0	0	0	*0*	0
Capital Value Tax	0.343	0.178	0.084	*0.050*	0.031
Sales Tax (Excl.GST on Services)	305.197	157.909	74.926	*44.620*	27.742
Federal Excise (Excl. ED on NG)	41.853	21.655	10.275	*6.119*	3.804
Customs (Excl. Export Dev. Surcharge)	117.483	60.786	28.842	*17.176*	10.679

* Includes deduction of Income Tax paid out of Federal Consolidated Fund.

2.4.2 Following Pie chart shows Horizontal Distribution of Provincial Share:-



2.5 Additionality to Khyber Pakhtunkhwa & Balochistan.

2.5.1 Article 3(2) of the President's Order entitles Province of Khyber Pakhtunkhwa to receive 1% of the net proceeds of undivided divisible pool taxes in addition to its formal share, on account of losses on WoT. An additional amount of Rs.13.853 billion has been paid to Khyber Pakhtunkhwa Province on this account during the period of report. As this arrangement remains protected during the currency of the Award, the share of Khyber Pakhtunkhwa Province is calculated as under:-

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

(Rs. in billion)

	July-Dec., 2016 (F.Y 2016-17)
Khyber Pakhtunkhwa	
Share in the Divisible Pool (14.62%)	115.295
1% War on Terror	13.853
Total:-	**129.148**

2.5.2 Similarly, Clause (3) of Article 4 of the Order also guarantees that the Balochistan province shall receive the projected sum of its 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.20.267 billion from its own resources, based on annual budgetary projections, to Balochistan Province during the period of report, as shown in the following table.

Table-VI: Additionality to Balochistan

(Rs. in billion)

	July-Dec., 2016 (F.Y 2016-17)
Balochistan	
Share in the Divisible Pool (9.09%)	71.683
Additionality provided by Federal Government	20.267
Total:-	**91.950**

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. Ministry of Petroleum and Natural Resources is responsible for collection of this levy and reports to Finance Division on monthly basis for onward transfer to the Provinces. Accordingly, entire net proceeds reported by M/o Petroleum and Natural Resources during July - December, 2016, 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
1st half (FY-2016-17) (July - December,2016)	0.725	2.334	3.604	0.069	6.732

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

3.2.1 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 collection 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. Following table gives details of distribution:

Table-VIII: Royalty on Natural Gas and GDS (July - Dec., 2016)

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.439	10.655	2.178	3.710	16.982
Gas Dev. Surcharge	1.011	10.318	1.333	2.908	15.571

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 collection 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 of Rs.5.117 billion were distributed amongst the provinces, as presented in the following table:

Table-IX: Excise Duty on Natural Gas

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
July - Dec.,2016	0.155	3.699	0.518	0.745	5.117

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 Zila Tax (OZT). During the period of report, the provincial share in the divisible pool was Rs.788.612 billion. Accordingly, said grant-in-aid was worked out to be Rs.5.205 billion, which stands released.

GENERAL SALES TAX ON SERVICES

4.1 General Sales Tax on Services (GSTS)

4.1.1 Article 8 of the Order relates to the General Sales Tax on Services. The 7th 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 All Provincial Governments have established their own Revenue Agencies and collecting GST on Services by themselves. Details of the GST collected by the Provincial Revenue Authorities during the period under report are as under:-

Table-X: GST Collection by the Provinces

(Rs in billion)

	Budget Estimate 2016-17	Collection upto 31st December, 2016
Punjab Revenue Authority	85.000	35.182
Sindh Revenue Authority	78.000	34.596
Khyber Pakhtunkhwa Revenue Authority	10.000	4.253
Balochistan Revenue Authority	-	1.971

Source: Provincial Civil Accounts.

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 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 7th NFC were as follows:

Table-XI: 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	12.09	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 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

Tax-GDP Ratio

Tax-GDP ratio during 2012-13 was 8.7% which rose to 9% in 2013-14 and further improved to 9.4% in 2014-15. During 2015-16, it jumped to 10.5% while forecast for the 2016-17 is 10.8%.

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

a. Elimination of SRO Culture:

Exemptions and concessions were allowed in the past under different concessionary SROs of Customs, Sales Tax & Federal Excise Duty and Income Tax laws. Most of these concessions caused distortions in the economy besides creating a complex and convoluted tariff regime leading to excessive discretionary powers. 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.

b. Rationalization of Import Tariff and Corporate Tax Rates:

To rationalize the import tariff structure and to reduce the general tariff slabs, peak tariff slab of 30% was reduced to 20%. The existing tariff slabs are 4 with the peak of 20% and floor at 3%. In order to promote tax culture and corporatization in the country it was decided to gradually reduce the tax rates for corporate taxpayers other than banks in the following manner:-

Tax year 2013	35%
Tax year 2014	34%
Tax year 2015	33%
Tax year 2016	32%
Tax year 2017	31%
Tax year 2018 & onwards	30%

c. Tax Reform Commission (TRC):

The Federal Government in year 2014, constituted a Tax Reform Commission in order to review and rationalize direct and indirect taxes, rationalization of import tariff, review of autonomy and administrative structure of FBR. The report of the Commission has been received by FBR and work on it is under process.

d. Benami Transaction Law:

The Benami Transactions (Prohibition) Amendment Bill, 2016 has been passed both by NA and Senate. This will help enable the authorities to curb transactions and holding of property in the name of others to avoid proper incidence of tax.

e. Differential Taxation:

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

f. Conversion of NTN into CNIC:

This initiative aims at facilitating individual taxpayer by absolving them to a large extent from cumbersome process of registration. It will further help in documentation of economy and broadening of tax base.

Administrative Initiatives

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, more than 465,000 notices have already been issued by June, 2016.

2. Queue Management System in Refunds:

Abusive system of processing and payment of refunds has been improved with the following features:

a. Queue management for refund claims (first in first out) both at field formations and FBR headquarters level.

b. Transmission of refund cheques into claimants bank account

c. Administrative measures like posting of suitable officers in refund sections to plug the leakages in the process of sanctioning of refund claims.

3. Strengthening Tax Audit

An audit plan has been reintroduced to accompany the self assessment scheme and to overcome weak tax compliance. Substantial progress has been achieved for infrastructure up-gradation and development with the introduction of the Integrated Tax Management System (Iris), which is available to all the field formations. A paradigm shift from simple random selection to Parametric Computer Ballot selection of cases in audit has been introduced. In this regard, cases for income tax, sales tax and federal excise for Tax Year 2015 have been selected for audit on 5th January, 2017.

4. **Addressing inadmissible input adjustment and illegal refunds in Sales Tax:**

Since VAT is primarily a tax based on value addition at source and exports are zero-rated, there is an inbuilt need for the documentation of transactions involved in entire supply chain. While textiles cater for major exports of Pakistan, various intermediary manufacturing and processing activities are largely carried out in the unorganized and undocumented sector. This gap is filled by fake invoicing to inflate refunds and suppress local supplies the refund issue consequently assumed staggering dimensions posing challenges for the VAT administration in Pakistan. In order to resolve these issues FBR has successfully prepared and implemented Computerized Risk Based Evaluation of Sales Tax (CREST) and Sales Tax Real - Time Invoice Verification System (STRIVe) for risk based analysis of sales tax returns. The purpose of STRIVe is to halt the false claims of tax input.

5. **Anti-Smuggling Strategy**

a. Frontiers Corps (Khyber Pakhtunkhwa) has been entrusted to carry out anti-smuggling within 20 K.M. of the international borders. Joint efforts are undertaken between Customs and other Law Enforcement Agencies.

b. Anti smuggling powers have been entrusted to Pakistan Coast Guards and Pakistan Maritime Security Agency to check the smuggling of contraband goods.

c. Similarly, the Political Administration in Tribal areas has also been entrusted with anti-smuggling powers.

d. Pakistan has signed an agreement with Afghanistan (Afghan-Pakistan Transit Trade Agreement). The importers as well as the carrier of Afghan cargo have to submit bank guarantees which are released only on verification that the goods have reached Afghanistan and were not pilfered inside Pakistan.

e. FBR has chalked out a comprehensive anti-smuggling strategy to effectively curb the menace of smuggling. In this regard available resources have been pooled for optimal use under the supervision of Directorate General of Intelligence & Investigation-FBR. Chokepoints have been strengthened, in co-ordination with other Law Enforcement Agencies to check smuggling. Moreover, new chokepoints are also being indentified.

f. Major entry points/smuggling routes in the country are being monitored through establishment of check posts manned by Pakistan Customs with the assistance of other LEAs.

g. FBR is in the process of recruitment of fresh Human resources in all cadres which will not only cater for the current shortage of force especially on the enforcement side but induction of the young lot which will result in reinvigoration of the force.

h. Special attention will be given to proper training of the enforcement force to enable them to face the challenges in the field of anti-smuggling.

6. Establishment of Transfer Pricing Unit (TPU):

The Federal Board of Revenue has established Transfer Pricing Unit at headquarter, which has been authorized to formulate policies in respect of Transfer Pricing and Cross Border transactions issues. The FBR has devised a strategy in this regard whereby TPU officers will be given foreign training on Transfer Pricing and Cross Border transaction issues, who would become eventually the master trainers of field officers. The FBR has also devised mechanism, whereby foreign trainers from developed countries will be engaged to train the field officers practically.

7. **Automation of IT Exemption Certification:**

Due to manual system of tax exemption, there was an evident problem in recording and reconciliation. Therefore, exemption certificate system has been automated and linked with Web Based One Customs (WeBOC) developed for greater transparency and facilitation.

8. **Whistleblowers:**

The Federal Board of Revenue has initiated a drive in order to trace tax evaders. Under this initiative FBR may sanction reward to whistleblowers or informers in cases of concealment or evasion of Income Tax, Sales Tax, or Federal Excise.

9. **Behavioral Change:**

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

a. Tax Directory of Parliamentarians

b. Establishment of Financial Investigation Cell

c. Campaign against Tax Evaders

10. **Taxpayers Facilitation and End-To-End Automation:**

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

a. **Web Based One Customs (WeBOC) System of Clearance:**

The WeBOC system is based on international best practices and provides real time integration of all stakeholders in the clearance process e.g. clearing agents, traders, terminal operators, cargo handlers, shipping agents, bonded carriers, warehouses, airlines and customs officials. It allows for 24/7 electronic filing, simplified paperless procedures, end-to-end integration, risk-based clearances, minimum dwell-time, better controls and minimal interaction between traders and Customs authorities.

b. **EDI - Electronic Data Interchange:**

The arrangements of Electronic Data Interchange (EDI) with China are in advance stage to check under-invoicing and to plug the leakages of revenue through mis-declaration and under invoicing as well as to facilitate the general taxpayers. Such arrangements will also be implemented with their major trading partner countries including Afghanistan.

c. **Inland Revenue Information System (IRIS):**

Iris, a new integrated, end-to-end Enterprise Resource Planning (ERP) and highly configurable and customizable for any organization, was conceived, designed and implemented to cover all business processes of Income Tax and Sales Tax.

11. **Integrity Management Cell:**

An Integrity management Unit has been established in FBR to examine complaints of misuse of authority and develop effective vigilance within organization. FBR has resolve that there will be zero tolerance for corruption.

The unit will monitor annual declaration of assets of employees and will generate periodical vigilance reports.

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, wheel swings and magic shows.

f. To rationalize registration fee on vehicles and to provide ease to the taxpayers payment 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, 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. In order to enhance provincial own receipts various measures have been taken to rationalize tax rates in respect of Sindh Sales Tax on Services, Infrastructure Cess, Registration Book Fee & route permit of vehicles, Hire Purchase Charges, Late payment surcharge etc. The Valuation Table has also been rationalized with market value of the properties.

b. Rationalization/Reduction of the statutory rates of Sales Tax on Services (from 14% to 13%).

d. Rebate on payment of Property Tax in 1st quarter in order to collect more revenue. Also, Government of Sindh has initiated re-survey of property tax. In this context, a pilot project in Sukkur is underway. The re-survey will increase the potential of property tax.

e. Exemptions on certain taxable services has been withdrawn / reviewed.

f. Government of Sindh has also approached Finance Division, Govt. of Pakistan for imposition of Excise Duty on Crude Oil with a request to pay the net proceeds of Excise Duty on Crude Oil to the Province of Sindh in order to increase Provincial Revenue Receipts.

g. An amount of Rs. 2650 million has been deducted at source from the share of divisible pool taxes for the month of November 2016. The said deduction has been made on 50% share for provision of subsidy for fertilizers, as announced by the Federal Government. However, it is pertinent to mention that Government of Sindh does not agree with the amount deducted. The issue has been raised at the concerned forum.

h. Under the two interlinked action plans - Sindh Tax Revenue Mobilization Plan and Public Financial Action Plan, concerted efforts are being made to mobilize and rationalize taxes, enhance transparency, improve accountability, attain greater efficiency, maintain fiscal discipline.

i. Budget Strategy Paper is being prepared under Sindh Public Management Reform Program and is being placed before the Cabinet every year for its input and recommendations thereby providing public representatives sufficient opportunities to comprehend budget complexities at ease.

j. Austerity Measures have been taken to curtail unnecessary expenditure. There has been a ban on procurement of new vehicles except for the operational vehicles for Police & armed forces and hospitals. Also, procurement of other luxury items like air conditioners etc. has also been kept under control and are provided wherever necessary.

k. Regular reconciliation of provincial receipts and expenditure are being made with Accountant General Sindh and other relevant agencies / departments.

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

m. Government of Sindh is also working on Agriculture Income Tax to bring improvements in its collection and levy mechanism. A workable policy is being prepared with consultation of stakeholders.

Government of Khyber Pakhtunkhwa

a. Broadening of Tax net of GST on Services by insertion of additional services in scheduled-I of Finance Act 2013

b. Revision of the rates of certain category of Stamp Duty (1899)

c. Revision of the rates of Token Tax

d. Revision of the rates of Electricity Duty

e. Amendment in Motor Vehicle Ordinance 1965

f. Revision of rates of Mutation Fee

g. Provincial Tax Revenue has been raised from revised target of Rs. 14,320 million of financial year 2015-16 to Rs. 18,171 million in Budget Estimate 2016-17 which is 27% higher than previous year revised target.

h. During the period July to December 2016, Tax Receipt collection was Rs. 8,175.423 million which is 45% of the Budget Estimate 2016-17.

Government of Balochistan

a. The Government of Balochistan has been striving to considerably expand its revenue base by fully tapping the provincial resource potential. The automation of the Board of Revenue / Excise & Taxation Department and Balochistan Revenue Authority is functioning successfully in Balochistan.

b. The Government of Balochistan is holding meetings with revenue generating departments to increase revenue targets and broaden tax net of respective agency with the help of Public Financial Management Project financed by the European Union to review the financial management system.

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

5.3: Fiscal Discipline

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

Federal Government

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

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

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

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

d. 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

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

b. Government of Punjab has 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.

c. 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.

d. 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.

e. Punjab Government has also introduced a reduced rate scheme for beauty parlours, 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 Parlours 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

Cash Monitoring: The Government of Sindh through effective and efficient financial management has succeeded to improve its cash balance position after 7th NFC Award. Cash balance with SBP is being monitored on daily basis and it is in positive direction.

Government of Khyber Pakhtunkhwa

a. While considering the budget estimates 2016-17 the Provincial Cabinet approved certain guiding principles to curtail the recurring expenditure effective from 1st July 2016.

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 expenditure.

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

Government of Balochistan

a. Finance Department Monitors its cash balance with State Bank of Pakistan and remains in surplus over the period of report.

b. Releases are linked with Ways & Means position both for development and non-development Budget.

c. The Principle that liabilities beyond budgetary authorities cannot be incurred is being strictly implemented.

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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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