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

*(July — December, 2017)*

Government of Pakistan
NATIONAL FINANCE COMMISSION SECRETARIAT

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Government of Pakistan
National Finance Commission Secretariat

F.No.7(1)NFC/ 2017

20th December, 2018

## LETTER OF TRANSMITTAL

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

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

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

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

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

**(Asad Umar)**
Finance Minister
Government of Pakistan

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# EXECUTIVE SUMMARY

This 1st Biannual Monitoring Report on implementation of 7th NFC Award covers the period from July to December 2017 of Financial Year 2017-18. Total tax collection, as reported by FBR, remained Rs.1845.304 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.1781.836 billion. On the basis of vertical distribution the Provincial share comes to Rs.1024.556 billion, and the balance of Rs.757.280 billion for Federal Government. The Provincial share has been calculated as Rs.530.105 billion to Punjab (51.74%), Rs.251.529 billion to Sindh (24.55%), Rs.149.790 billion to Khyber Pakhtunkhwa (14.62%) and Rs.93.132 billion to Balochistan (9.09%). Khyber Pakhtunkhwa and Balochistan got Rs.17.998 billion and Rs.8.214 billion on account of WoT and additionality respectively.

On account of Royalty on Crude Oil, Royalty on Natural Gas and Gas Development Surcharge, an amount of Rs.6.864 billion, Rs.14.674 billion and Rs.17.724 billion was transferred to the provinces respectively during July-December, 2017 after deducting 2% collection charges. Similarly, an amount of Rs.3.771 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.6.762 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 of the Islamic Republic of Pakistan, 1973 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, 2017.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

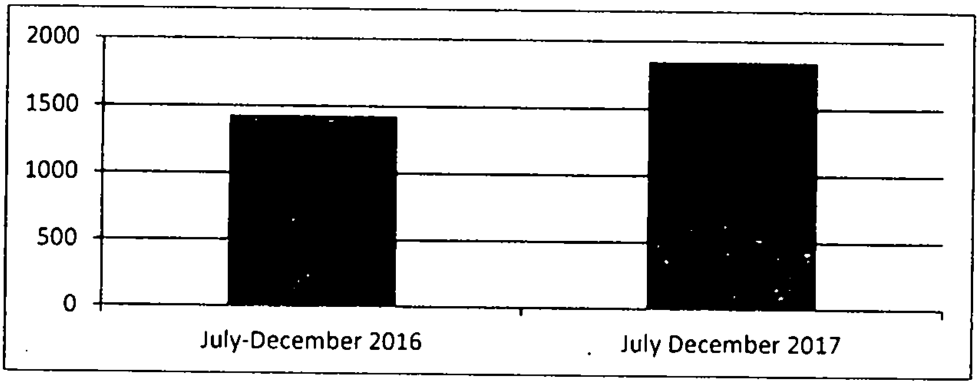
2.1.1 Federal Board of Revenues (FBR) reported tax collection of Rs.1845.304 billion from July to December, 2017 (F.Y 2017-18), as presented in the following table:

**TABLE-I:Total FBR Collection (July - Dec., 2017)**

**(Rs. in billion)**

| | | |
|---|---|---|
| A | Provisional collection reported on fortnightly basis during July - December, 2017. | 1530.117 |
| B | Arrears worked out on receipt of final reconciled collection for F.Y. 2016-17 reported and released in F.Y. 2017-18 | 315.187 |
| C | Total Collection reported during the period of report (A+B) | 1845.304 |

2.1.2 Funds were released to the Provinces on the basis of FBR collection during the 1st half of the FY 2017-18 amounting to Rs.1845.304 billion, which shows considerable increase of 29.44%, as compared to Rs.1425.528 billion, relating to the corresponding period of FY-2016-17. 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.1825.075 billion against total tax receipts of Rs.1845.304 billion. A detailed break up in this regard is given as follows:

**TABLE-II: Calculation of Gross Divisible Pool Tax**

**(Rs. in billion)**

| | 1st half of 2017 -18 |
|---|---|
| **Total Collection FBR Receipts** | **1845.304** |
| **Less Non-Divisible Pool Components** | **20.229** |
| *WWF* | 11.447 |
| *GST on Services* | 1.779 |
| *Excise Duty on Natural Gas* | 3.848 |
| *Income Support Levy* | - |
| *Exp. Development Surcharge* | 3.155 |
| **Gross Divisible Pool Tax** | **1825.075** |

**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:

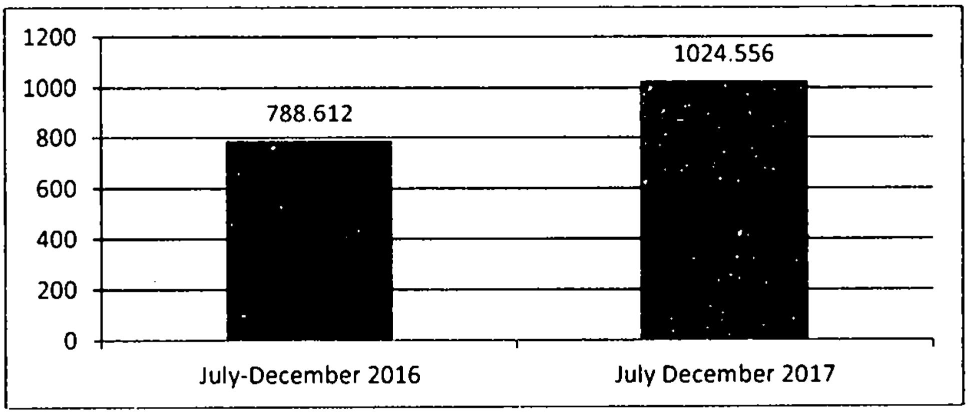
**Table-III: Vertical Distribution of Share (July-Dec., 2017)**

**(Rs. in billion)**

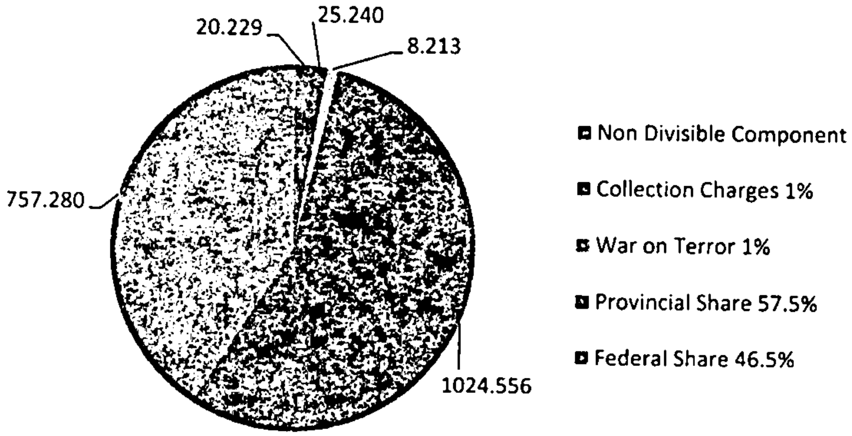
| | Receipts | Collection Charges (1%) | Net Div. Pool Taxes | 1% WoT for Khyber P'Khwa | Balance Net Div. Pool | Prov. Share (57.5%) |
|---|---|---|---|---|---|---|
| **Divisible Pool Taxes** | **1825.075** | **25.240** | **1799.835** | **17.998** | **1781.836** | **1024.556** |
| Income Tax * | 698.904 | 13.978 | 684.926 | 6.849 | 678.077 | 389.894 |
| Wealth Tax | 0 | - | - | - | - | - |
| Capital Value Tax | 1.958 | 0.020 | 1.938 | .019 | 1.918 | 1.103 |
| Sales Tax (Excl.GST on Services) | 734.598 | 7.346 | 727.252 | 7.273 | 719.979 | 413.988 |
| Federal Excise (Excl. ED on NG) | 100.748 | 1.007 | 99.741 | 0.997 | 98.744 | 56.778 |
| Customs (Excl. Export Dev. Surcharge) | 288.867 | 2.889 | 285.978 | 2.860 | 283.118 | 162.793 |

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

2.3.2 An amount of Rs.788.612 billion was transferred to the Provinces during 1st half of FY 2016-17, while the amount transferred during the period under report comes to Rs.1024.556 billion which shows an increase of 29.9%. Following chart shows comparison of Provincial Transfers:-



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




## 2.4: Horizontal Distribution

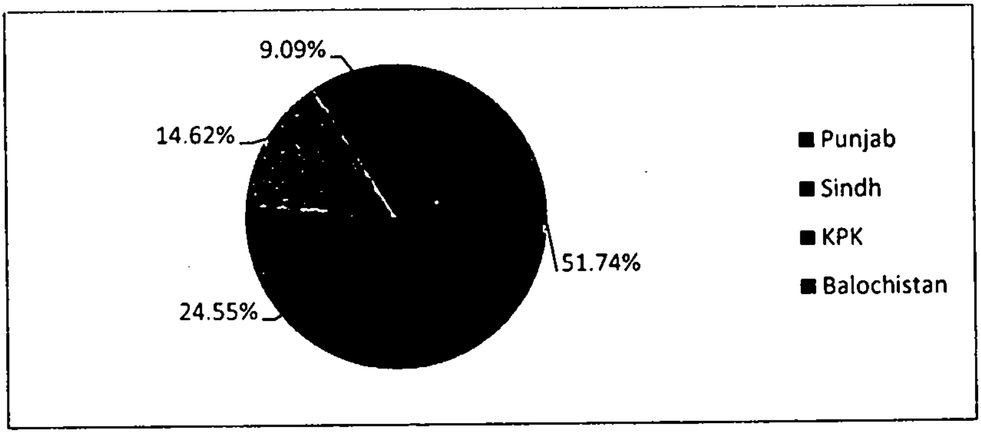
2.4.1 Article 4(2) of the President's Order provides percentage share of each Province in the Provincial share, out of divisible pool taxes. Provincial share against their percentages for the period from July-December, 2017 has been worked out as follows:-

**Table-IV: Provincial Share out of Divisible Pool(July-Dec.,2017)**

**(Rs. in billion)**

| | Total | Punjab | Sindh | Khyber Pakhtunkhwa | Balochistan |
|---|---|---|---|---|---|
| | (100%) | (51.74%) | (24.55%) | (14.62%) | (9.09%) |
| **Divisible Pool Taxes** | **1024.556** | **530.105** | **251.529** | ***149.790*** | **93.132** |
| Income Tax | 389.894 | 201.731 | 95.719 | *57.003* | 35.441 |
| Wealth Tax | - | - | - | - | - |
| Capital Value Tax | 1.103 | 0.571 | 0.271 | *0.161* | 0.100 |
| Sales Tax (Excl.GST on Services) | 413.988 | 214.198 | 101.634 | *60.525* | 37.632 |
| Federal Excise (Excl. ED on NG) | 56.778 | 29.377 | 13.939 | *8.301* | 5.161 |
| Customs (Excl. Export Dev. Surcharge) | 162.793 | 84.229 | 39.966 | *23.800* | 14.798 |

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. 17.998 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., 2017 (F.Y 2017-18) |
|---|---|
| **Khyber Pakhtunkhwa** | |
| Share in the Divisible Pool (14.62%) | 149.790 |
| 1% War on Terror | 17.998 |
| **Total:-** | **167.788** |

2.5.2 Similarly, Clause (3) of Article 4 of the Order 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.8.214 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., 2017 (F.Y 2017-18) |
|---|---|
| **Balochistan** | |
| Share in the Divisible Pool (9.09%) | 93.132 |
| Additionality provided by Federal Government | 8.214 |
| **Total:-** | **101.346** |

# 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, 2017, 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-2017-18) (July - December,2017) | 1.216 | 2.031 | 3.608 | 0.009 | 6.864 |

## 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 the said provision. Following table gives details of distribution:

**Table-VIII: Royalty on Natural Gas and GDS (July - Dec., 2017)**

**(Rs. in billion)**

| | Punjab | Sindh | Khyber Pakhtunkhwa | Balochistan | Total |
|---|---|---|---|---|---|
| Royalty on Natural Gas | 0.539 | 8.620 | 2.272 | 2.243 | 14.674 |
| Gas Dev. Surcharge | 1.189 | 11.882 | 2.155 | 2.498 | 17.224 |

### 3.3: Distribution of Excise Duty on Natural Gas

3.3.1 As per Article 161 (1) of the Constitution of the 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.3.771 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.,2017 | 0.162 | 2.429 | 0.993 | 0.187 | 3.771 |

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.1024.556 billion. Accordingly, said grant-in-aid was worked out to be Rs.6.762 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 2017-18 | Collection upto 31st December, 2017 |
|---|---|---|
| Punjab Revenue Authority | 127.000 | 47.163 |
| Sindh Revenue Authority | 100.000 | 38.180 |
| Khyber Pakhtunkhwa Revenue Authority | 13.653 | 5.042 |
| Balochistan Revenue Authority | 4.700 | 2.898 |

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 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-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 | 12.00 | 12.70 | 13.25 |
| Surcharges | 0.90 | 0.80 | 0.80 | 0.70 | 0.60 | 0.60 |
| Provincial taxes | 0.50 | 0.65 | 0.80 | 0.90 | 1.00 | 1.15 |
| Total | 10.70 | 11.75 | 12.80 | 13.60 | 14.30 | 15.00 |
| *FBR tax efforts* | | *1.00* | *0.90* | *0.80* | *0.70* | *0.55* |
| *Provinces' tax efforts* | | *0.15* | *0.15* | *0.10* | *0.10* | *0.15* |

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

**Federal Government**

**Improving Tax to GDP Ratio:**

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

i) Narrow tax base;
ii) Agriculture, large number of services are out of net;
iii) Excessive exemptions and concessions;
iv) Large undocumented informal sector;
v) Weak Audit and enforcement;
vi) Low Compliance;
vii) Absence of tax compliant culture.

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

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

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

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

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

**More Open and Transparent Tax System**

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

- Iris, covering all business processes of income tax and sales tax to replace 37 Silo Systems;
- WeBOC, system of paperless customs clearance;
- Crest, return processing and desk audit system for sales tax
- Strive, system to check fake invoicing and input tax adjustment in sales tax
- ERS, Expeditious Refund System in sales tax;
- Electronic data Interchange with China and Afghanistan.

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

a. Tax Directory of Parliamentarians;

b. Establishment of Financial investigation Cell

c. Campaign against Tax Evaders.

**Reforms in FBR:**

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

a. **Elimination of SRO Culture:**

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

b. **Rationalization of Import Tariff and Corporate Tax Rates:**

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

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

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

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

g. **Queue Management System** (in sales tax refunds)

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

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

j. **Automation of IT Exemption Certification**

k. **Whistleblowers** (drive to detect tax evasion)

l. **New Anti-Smuggling Strategy Introduced.**

m. **Establishment of Transfer Pricing Unit**

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

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

p. **Human Resource Management.**

a. Development of Job Description and Key Performance indicators

b. Mandatory Training of Officers

q. **Stringent Enforcement**

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

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

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

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

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

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

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

x. **Launch of online payment system.**

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

**Government of Punjab**

a. The operational experience gained by Punjab Revenue Authority during the preceding financial years has led to the proposal of some technical amendments in the Punjab Sales Tax on Services Act, 2012. The technical amendments cover the issues like harmonization with Federal Sales Tax Act, 1990 by introducing counter-part provisions for Sales Tax Real time Invoice Verification (STRIV), clarifying the scope of service exports, definition of 'place of business' for capturing transactions with respect to e-commerce, increasing the number of authorities under the Act and introducing the concept of collection agent not being a service provider or a service recipient. These amendments have streamlined the application of the ibid Act to increase efficiency of PRA along with facilitation of the taxpayers.

b. Upon introduction of e-Stamping project for facilitation of public and to eliminate the usage of counterfeit stamp papers, the other taxes and fee i.e. Capital Value Tax and Registration Fee which was being charged @ 2% of the value of the urban property and Rs.500/- in case of value up to Rs.500,000/- and Rs.1000/- exceeding Rs.500,000/- respectively has been merged into the head of account of Stamp Duty. The new rate of Stamp Duty is being charged @ 5% of the consideration. However, the exemptions already envisaged in the section 6 of Finance Act, 2010 (as amended) from the payment of CVT would remain intact to the extent of payment of Capital Value Tax. The definition of urban area has also been included in Stamp Act, 1899. This step is another landmark in the case of doing business.

**Government of Sindh**

- Sindh Sales Tax on certain Services has been rationalized to make business competitive and bring the rates of taxes in line with other provinces.
- Steps have been taken for strengthening the Public Accounts Committee. The PAC is the highest provincial forum dealing with matters related to post audit. Its robust working will have a positive bearing on public expenditure and fulfill expectations.
- Sindh Tax Revenue Mobilization Plan (STRMP), Public Financial Action Plan and Sindh Public Management Reform Program are fully functioning to achieve its targets in Sindh.
- Revenue collection & expenditure are being monitored on regular basis.
- GoS is also making efforts to increase collection of Agriculture Income Tax.
- The automation of Board of Revenue, Excise & Taxation and Sindh Revenue Board is functioning successfully in Sindh.
- All transactions of land record & Motor Vehicle Tax Revenue are being carried out through LARMIS system.

**Government of Khyber Pakhtunkhwa**

i) Revision of UIP Tax.

ii) Revision of Profession Tax.

iii) Insertion of new service for Sale Tax on services.

The budget estimate of tax receipt from July to December 2017 was Rs.11153.4 million. An amount of Rs. 8236.2 Million was realized showing a percentage of recovery of 73.4 %.

**Government of Balochistan**

i) Government of Balochistan striving to expand its revenue base by tapping the Provincial Resource potential.

ii) The projects regarding automation of land revenue management, collection of taxes by Excise and Taxation Department are under execution.

iii) The newly established Revenue Authority is being strengthened to enhance tax base and its compliance by the tax payers.

iv) In addition to the above the Provincial Government with the assistance of World Bank and European Union is reviewing overall Provincial Tax Governance Mechanism through group experts for more tax reforms.

**5.3: Fiscal Discipline**

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

**Federal Government**

Present Government inherited fiscal deficit above 8% of GDP. Through prudent fiscal measures i.e. increase in tax revenue and cut in current expenditure, deficit has been reduced by sustained level. In order to achieve the deficit target following steps were taken in this regards:-

a. Restricted current and development expenditure (net after austerity measures) at the level of 20% of budget allocation for 1st and 2nd quarter and at the level of 30% each for 3rd and 4th quarter of budget estimates.

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

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

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

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

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

**Government of Punjab**

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

ii. Government of Punjab has initiated the project of Automation of Stamp Papers (e-stamping) to revamp the existing system of collection of stamp duty. This is a step towards citizens' facilitation and transparency in collection mechanism and will prove to increase the revenues by plugging leakages and better administration/ reconciliation.

iii. Government of Punjab has established four commissionerates of the Punjab Revenue Authority (PRA) in Multan, Gujranwala, Faisalabad and Rawalpindi and a Camp Office at Murree for better administration and collection of sales tax on services. This step has certainly expected to enhance the receipts from sales tax on services substantially. In order to enhance the outreach and to tap the potential of Sales Tax on Services, Punjab Government is also proposing to set up its sub-offices at Sargodha, Sahiwal, Sialkot and Bahawalpur during the current financial year.

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

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

**Government of Sindh**

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

**Government of Khyber Pakhtunkhwa**

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

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

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

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

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

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

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

**Government of Balochistan**

i. Strict austerity measures to reduce expenditures on non-development side.

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

iii. Foreign visits/training on government expenses have been curtailed considerably.

iv. Government of Balochistan has been able to shift more than sixty thousand pensioners out of eighty thousand from manual payment system to Direct Credit System. Similarly, all the 33 districts have been brought on HR Module of SAP and the salaries of employees are being disbursed through automated mechanism under HR Module of SAP system.

v. The Government of Balochistan is also committed to initiate implementation of OM Module shortly.

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Annex-I

REGISTERED No. M - 302 / L.-7646

# The Gazette of Pakistan

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ISLAMABAD, MONDAY, MAY 10, 2010

PART I

**Acts, Ordinances, President's Orders and Regulations**

GOVERNMENT OF PAKISTAN

## MINISTRY OF LAW, JUSTICE AND PARLIAMENTARY AFFAIRS

*Islamabad, the 10th May, 2010*

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

PRESIDENT'S ORDER No. 5 of 2010

AN

ORDER

*to provide for distribution of revenues and certain grants*

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



*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.*

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