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

(July – December 2013)

Government of Pakistan
National Finance Commission Secretariat

LETTER OF TRANSMITTAL

MINISTRY OF FINANCE
ISLAMABAD

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

The 7th National Finance Commission signed the Award 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). The implementation of 7th NFC Award has been started w.e.f. 1st July, 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 now imperative upon the Finance Ministers of the Federal and Provincial Governments to monitor implementation of the Award biannually and lay a report before both Houses of the Parliament and Provincial Assemblies. The bi-annual monitoring report for the period from July to December, 2013 was approved by the Finance Ministers in Islamabad in meeting held on 20th May, 2014. The implementation status on each of the articles of the President's Order was deliberated upon and a report was finalized/approved for laying before both Houses of the Parliament and Provincial Assemblies.

(Senator Mohammad Ishaq Dar)
Finance Minister
Government of Pakistan

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INTRODUCTION

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

i. 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).

ii. 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).

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

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

v. 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).

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

1.2 As provided under clause (3B) of Article 160 of the Constitution, the Federal and Provincial Finance Ministers monitor implementation of the Award biannually and lay a report in this regard in both Houses of the Parliament and the Provincial Assemblies. As such, the implementation status of the above provisions of the President's Order, i.e., Distribution of Revenues and Grants-in-Aid Order 2010 has been explained in the following chapters.

DIVISION OF DIVISIBLE POOL TAXES

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

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

2.3: FBR Tax Receipts

2.3.1 During the period from July – December, 2013 (1st half of F.Y.2013-14), Federal Board of Revenues (FBR) reported tax collection amounting to Rs.1031.42 billion.

2.4: Distribution of Divisible Pool Taxes

2.4.1 The components of divisible pool taxes are laid down in clause (1) of Article 3 of said Order. Receipts of the FBR also include some non-divisible pool components. Therefore, after deducting such components, the gross divisible pool taxes were worked out to be Rs.1010.72 billion against total tax receipts of Rs.1031.42 billion. A detailed breakup in this regard is given as follows:

Table-I

Rs. in Billion

	July – December, 2013
Total Collection FBR Receipts	**1031.42**
Less Non-Divisible Pool Components *	**20.70**
* WWF	5.29
* GST on Services	3.25
* Excise Duty on Natural Gas	5.35
* Export Development Surcharge	2.98
* Income Support Levy	0.07
* Income Tax Paid out of the Federal Consolidated Fund	3.76
Gross Divisible Pool Tax	**1010.72**

2.5: Vertical Distribution

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

Table-II

Distribution 1st Half (July – December, 2013) F.Y.2013-14

Rs. in billion

	Receipts	Collection Charges (1%)	Net Div. Pool Taxes	1% for WoT for Khyber Pakhtunkhwa	Balance Net Div. Pool	Prov. Share (57.5%)	Prov. Share with 1% WoT
Divisible Pool Taxes	**1010.72**	**10.13**	**1000.59**	**10.01**	**990.58**	**569.58**	**579.59**
Income Tax	372.50	3.76	368.74	3.69	365.05	209.90	213.59
Wealth Tax	0.05	0.00	0.05	0.00	0.05	0.03	0.03
Capital Value Tax	0.32	0.00	0.32	0.00	0.32	0.19	0.19
Sales Tax (Excl.GST on Services)	478.43	4.78	473.65	4.74	468.91	269.62	274.36
Federal Excise (Excl. ED on NG)	52.31	0.52	51.79	0.52	51.27	29.48	30.00
Customs (Excl. Export Dev. Surcharge)	107.11	1.07	106.04	1.06	104.98	60.36	61.42

2.6: Horizontal Distribution

2.6.1 The percentage share of each province in the provincial share of the Divisible Pool Taxes has been laid down in Clause (2) of Article 4. Article 3(2) of said Order also entitles province of Khyber Pakhtunkhwa to receive 1% of undivided divisible pool taxes on account of losses on War on Terror. On this account, the Khyber Pakhtunkhwa province was paid an amount of Rs.10.01 billion during the period of report i.e. July – December, 2013. Clause (3) of Article 4 of said Order also provides that Balochistan province shall receive the projected sum of the provincial share in the net proceeds of divisible pool taxes and any shortfall shall be made up by the Federal Government from its own resources. As this arrangement for Balochistan remains protected throughout duration of the Award, Federal Government paid an additionality of Rs.9.85 billion from its own resources during July – December, 2013 i.e. the period of report. Accordingly, details of horizontal distribution are as follows:

Table-III

Total Figures of 1st Half (July – December, 2013) F.Y.2013-14

Rs. in billion

	100.00%	51.74%	24.55%	14.62%	9.09%
Divisible Pool Taxes	**569.58**	**294.70**	**139.83**	**83.27**	**51.78**
Income Tax	209.90	108.60	51.53	30.69	19.08
Wealth Tax	0.02	0.02	-	0.00	0.00
Capital Value Tax	0.20	0.10	0.05	0.03	0.02
Sales Tax (Excl.GST on Services)	269.62	139.50	66.19	39.42	24.51
Federal Excise (Excl. ED on NG)	29.48	15.25	7.24	4.31	2.68
Customs (Excl. Export Dev. Surcharge)	60.36	31.23	14.82	8.82	5.49

Table-IV

Releases to Khyber Pakhtunkhwa

(Rs in billion)

	1st Half of FY 2013-14
Share in the Divisible Pool (14.62%)	83.27
1% War on Terror	10.00
Total:-	**93.27**

Table-V

Releases to Balochistan

(Rs in billion)

	1st Half of FY 2013-14
Share in the Divisible Pool (9.09%)	51.78
Additionality provided by Federal Government	9.85
Total:-	**61.63**

STRAIGHT TRANSFERS/GRANTS-IN-AID

3.1: Distribution of Royalty on Crude Oil

3.1.1 Article 5 of said Order relates to the distribution of net proceeds of royalty on crude oil. The M/o Petroleum and Natural Resources is responsible for collection of this levy which is reported to Finance Division monthly for onward transfer to provinces. Accordingly, entire net proceeds reported by M/o Petroleum and Natural Resources were distributed amongst the provinces in accordance with said provision during 1st half (July – December, 2013) F.Y. 2013-14 as follows:

Table-VI
Royalty on Crude Oil

Rs in billion

Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
2.244	2.826	9.384	0.002	**14.456**

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

3.2.1 Article 6 of the Order (Award) governs distribution of Development Surcharge on Gas (GDS) and Royalty on Natural Gas. M/o Petroleum and Natural Resources is the collecting agency for these two levies. The proceeds collected are reported to Finance Division monthly for onward transfer to provinces. Accordingly, entire net proceeds of Royalty and Development Surcharge on Gas reported by M/o Petroleum and Natural Resources were distributed amongst the provinces in accordance with said provision during 1st half (July – December, 2013) F.Y. 2013-14 as follows:

Table-VII
GDS & Royalty on Natural Gas

Rs in billion

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty On NG	0.741	11.833	2.303	4.687	**19.563**
Gas Dev. Surcharge	2.059	27.878	4.368	6.643	**40.948**

3.2.2 As per clause (2) of Article 6, GDS payable to Balochistan with effect from 01.07.2002 to 30.06.2010 was to be worked out subject to a maximum of Rs.10 billion which was to be paid to Balochistan province in five years. Therefore, Federal Government paid an amount of Rs.6.0 billion to Government of Balochistan through allocation of an amount of Rs.2.0 billion per annum respectively in FY 2010-11, FY 2011-12 and FY 2012-13. Accordingly, an amount of Rs.1.0 billion was also released on this account to Balochistan Province during July to December 2013 i.e. 1st half of FY 2013-14.

3.3: Distribution of Excise Duty on Natural Gas

3.3.1 As per Article 161 (1) of the Constitution of Islamic Republic of Pakistan, the excise duty on Natural Gas is required to be paid to the province in which the well head of Natural Gas is situated. FBR is the collecting agency for this levy. The proceeds so collected are reported to Finance Division monthly for onward transfer to provinces. Accordingly, net proceeds were distributed amongst the provinces in accordance with said provision during 1st half (July – December, 2013) F.Y. 2013-14 as follows:

Table-VIII

Excise Duty on Natural Gas

Rs in billion

Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
0.209	3.263	0.691	0.705	**4.868**

Note:- It is clarified that out of total amount of Rs 0.209 billion, Rs.0.144 billion transferred to Government of Punjab pertained to first six months of the financial year 2013-14 whereas an amount of Rs.0.065 billion pertained to the financial year 2012-13".

3.4 Grants-in-Aid to Sindh Province

3.4.1 Under Article 7 of said Order, Sindh province is entitled to receive a grant-in-aid equivalent to 0.66% of the provincial share in the net proceeds of the divisible pool as a compensation for losses on account of abolition of Octroi and Zilla Tax. During the 1st half (July – December, 2013) of F.Y. 2013-14, the provincial share in the divisible pool was Rs.569.58 billion. Accordingly, said grant-in-aid was worked out to be Rs.3.76 billion which was paid to the Government of Sindh during period under reference.

GENERAL SALES TAX ON SERVICES

4.1 General Sales Tax on Services (GSTS)

4.1.1 Through Article 8 of said Order, NFC accepted that General Sales Tax on Services is a provincial subject under the Constitution and may be collected by the respective provinces, if they so desire.

4.1.2 Government of Punjab, Sindh and Khyber Pakhtunkhwa have since established their own Revenue Agencies, these provinces collected GST on Services on their own during period of report. However, FBR continued to collect GST on Services on behalf of the Government of Balochistan. As per Civil Accounts as of December 2013, Punjab Government collected Rs.20.4 billion, Sindh Government collected Rs.17.8 billion whereas Government of Khyber Pakhtunkhwa collected Rs.3.8 billion respectively on account of GST on Services.

4.1.3 However, the amount of Rs.1.020 billion pertaining to Khyber Pakhtunkhwa was released during July – December, 2013 (F.Y.2013-14), as arrears of F.Y.2012-13.

MISCELLANEOUS PROVISIONS OF THE AWARD

5.1: Miscellaneous

5.1.1 Article-9 of said 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 tax efforts to improve taxation and to maintain fiscal discipline by the Federal and Provincial Governments. In this regard, the NFC recommended that the Federal Government and Provincial Governments would streamline their tax collection systems to reduce leakages and increase revenues through efforts to improve taxation in order to achieve a 15% tax to GDP ratio by the terminal year of the Award i.e. 2014-15. It was also recommended that provinces would initiate steps to effectively tax the Agriculture and Real Estate sectors. The projections regarding tax efforts recommended by the NFC were as follows:

Table-IX

As % of GDP

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

5.2.2 The estimated GDP (mp) for the FY-2013-14 (as of December, 2013) is Rs.26001.0 billion. While FBR's tax estimates for current financial year are Rs. 2475.00 billion, total estimates would be Rs.2832.50 billion after taking into account the Federal receipts other than FBR and the Provincial taxes. Accordingly, a profile of tax efforts by the Federal and Provincial Governments upto December, 2013 is as follows:

Table-X

(Rs in billion)

	BE 2013-14	**FY-2013-14 (July – Dec., 2013)**	**% age over BE**
Federal	**2598.08**	**1076.99**	**41.5%**
of which FBR	**2475.00**	**1031.42**	**41.7%**
Provinces	**234.42**	**87.63**	**37.4%**
Punjab	126.70	45.05	35.6%
Sindh	91.37	36.00	39.4%
Khyber Pakhtunkhwa	10.29	5.73	55.7%
Balochistan	6.06	0.85	14.0%

Note: GST on services reflected for respective provincial government being a provincial levy. Detail is given at Annex-II

5.2.3 In pursuance, of the Article 9(2) of the Award, various steps taken by the Federal Government through FBR are reproduced as follows:

- FBR has collected Rs.1031.4 billion during the first 6 months of 2013-14 showing a growth of around 16% over the corresponding period of last year. All the taxes have exhibited double digit growths except customs where the growth is restricted to 2.5%. Main reason of low growth is on account of 2.6% growth in dutiable imports which is the tax base of customs.

- FBR has devised a comprehensive reforms program and strategy to enhance resource mobilization efforts in the country and increase tax to GDP ratio from the lowest level of 8.5% to 15% in the next few years. Main features of the reform plan are as under:

  - **Broadening of Tax Base:** For broadening of tax base, several initiatives have been taken and some are in pipeline. Initially the objective is to incorporate 300,000 new taxpayers. In this regard, 71,000 notices have already been issued, and a total of 100,000 notices will be issued by June 30, 2014. Similarly, a detailed plan for outreach program including provincial assessment, collection procedures, penal actions and prosecution proceedings has been chalked out.

  - **Rationalization of Concessionary Regime and Withdrawal of Exemptions/SROs:** In order to provide level playing field and equitable tax system in the country FBR has devised a plan for rationalization of concessionary regime and withdrawal of exemptions. The plan has been approved by the Government. However, a high powered committee has been constituted to suggest phase wise withdrawal of exemptions. The committee has held numbers of meetings and expected to finalize its recommendations.

- **Administrative Improvement Initiatives:** Initiatives for administrative improvement in all the taxes have been finalized and implementation strategy is developed and launched. Certain policy reforms have already been taken and GST coverage has been expanded. Exemptions have been restricted to food items, health, education and agriculture produce.

- To resolve issues relating to sales tax FBR has successfully prepared and implemented Computerized Risk Based Evaluation of Sales Tax (CREST). Another major step has been the development of a fully automated sales tax refund processing system for manufacturers/exporters where refund claims are processed within 48 hours. Sales tax refund cheque issuance has been centralized at FBR HQ to guarantee that cheques are issued to taxpayers within seven days of clearance of claims and to reduce refund pendency.

- **Taxpayers Facilitation:** Introduction of an e-filing process accessible to taxpayers for income tax, sales tax and excise at e-FBR portal has been ensured. Automation of systems has helped in minimizing the contact between taxpayer and tax officer and as a consequence the complaints of harassment has been reduced accordingly. Compliance has been made easier through simplicity of procedures and introduction of an e-filing process accessible by taxpayers for income tax, sales tax and excise at e-FBR portal. Automation of systems has helped in minimizing the contact between taxpayer and tax officer and as a consequence the element of harassing has been reduced accordingly.

- **Strengthening Tax Audit:** A risk based audit 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 (ITMS) which is available to all the field formations.

- **Customs Modernization and Control:** Customs modernization reforms are being introduced, aiming at simplifying, standardizing and automating customs clearance procedures supported with strong post-clearance audit controls. Online connectivity of Customs posts has been developed. Risk management principles have been adopted and a Vehicle and Container Tracking System for monitoring transit trade is being procured. The Afghan Pakistan Transit Trade Agreement (APTTA) 2010 has replaced the 1965 agreement, with between controls and enhanced facilitation.

- An integrated, risk-based automated customs clearance system (WEBOC) has been indigenously developed which minimizes interaction between taxpayers and tax collectors, thereby minimizing malpractices.

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

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

Government of Punjab

- Government of the Punjab proposed through Punjab Finance Act, 2013 to revise the valuation list of properties as required under the Punjab urban immoveable property tax act, 1958 after a period of 12 years. This list will be enforced for the purpose of assessing and collecting the tax w.e.f 01.01.2014.since the last revision, rental values of properties have increased manifold, Therefore, in order to rationalize the increase in tax liability of taxpayers, Government proposed to reduced the rate of tax from20% to10%.
- Punjab government has eliminated the exemption of property tax on high –valued residential small properties measuring upto five marlas of A category.
- The last date for payment of lifetime token tax in case of motor vehicles in use prior to amendment in the Motor Vehicle Tax Act, 1958 requiring lump sum life-time token tax payment by certain type of vehicles was earlier not specified. It has been proposed to mandate payment of such token tax before the 1st day of September of 2013.
- In order to ensure recovery of income tax on agricultural income declared income tax on agricultural income declarations so that such income may not be unilaterally assessed as urban income for the purpose of income tax, a mandatory condition for payment of agricultural income tax on such income was proposed to be incorporated in Punjab Finance Act, 2013. Federal Board of Revenue has already proposed corresponding amendment in the Income Tax ordinance, 2001 requiring production of payment of agricultural income tax.
- Prior to implementation of Punjab Finance Act, 2013, immoveable property in urban areas measuring at least 250 square yards or 10 marls, whichever is less, was exempted from Capital value Tax. Thus, some high valued properties in urban areas were enjoying exemption on the basis of physical measurement. Through Punjab Finance Act, 2013, Punjab Government has linked the exemption with value of the immoveable property in order to enhance equity on taxation on the immoveable property transactions.
- In the 18th Amendment, the right of the provinces to levy and collect taxes on capital gains on immoveable property has been categorically accepted in the constitution. Punjab Government proposed to levy and collect capital gains tax from the seller on ad-valorem basis (tax rate decreasing with the increase in retention period, i.e, between 5%to 1%) in case of immoveable properties purchased and sold within a period of five years. No tax shall be changed on immoveable properties acquired, retained and sold beyond five years. It is presumed that the proposed tax will bring fiscal benefits to the provincial exchequer, discourage speculations in real estate business and help keep the price of properties at reasonable level.
- In order to tax luxurious lifestyle, a one time, "luxury" tax on urban area "A" category houses measuring 1000 square yards and above has been imposed. Tax incidence will progressively increase with increase in the size with maximum

limit of Rs.1,500,000/- for houses of 4000 square yards and above in four installments. Widows have been exempted from tax to the extent of one house upto 4000 square yeards and above till the life of the widow after which the tax is liable to the paid by survivors. Tax- paid houses will not be re-taxed on subsequent sales or transfer.

- The above taxes are expected to yield significant amount of revenue for the Government.

Government of Sindh

- Amended the Provisions of the Sindh Sales Tax on Services Act, 2011 and imposed new levies of Sindh Sales Tax on Services by Advertising Agents, Race Clubs, Commodity Brokers, Events Management Services, Sponsorship Services, Business Support Services, Management Consultants, Market Research Agencies, Auto Workshops, Labour & Manpower Supply Services, Services Provided in the matter of Manufacturing or processing for others on toll basis.
- Levy of Sindh Sales Tax on Services on Beauty Parlours & Beauty Clinics, Gyms, Body Massage Centers, Pedicure, Security Agencies etc..
- Modification in rate of Infrastructure Cess @ rate from 0.90% to 0.95%.
- Amended Section-3 of Sindh Urban Immovable Property Tax Act 1958 and Property Tax has been revised from the rate of 20% ARV to 25% ARV.
- Revision of Licenses Fees on Trade & Import of Potable Liquor License from Rs.600,000/- to Rs.800,000/- and Retail of Liquor License from 350,000 to Rs.500,000/-.
- Government of Sindh is in process to increase revenue and reducing certain exemptions through reviewing Agriculture Income Tax (AIT) in the Provinces.
- Special attention is being given for the improvement in existing structure and systems of Motor Vehicle Tax and Property Tax. All types of live transactions of Motor Vehicle Tax Revenue are carried out through new computerized system. The Data of Property Tax is also digitized and the issuance of computerized challans in some Divisions of Karachi have been tested and will be started at the end of current financial year. In this context, more than 95% work of computerization of taxes has been completed. All software applications have been developed, IT infrastructure has been established. Necessary training of staff has been completed and they are working on newly developed software applications.
- Similarly, Government of Sindh is holding meetings with revenue generating departments periodically to increase revenue targets and broaden tax net of respective agency.
- Government of Sindh has constituted a Provincial Fiscal Monitoring Committee to obtain 100% reconciliation of accounts at Provincial level on the following TORs:-
    - To monitor and ensure timely reconciliation process of receipts & expenditure of the Administrative Departments on monthly basis;

- To resolve the deficiencies in preparation of proper accounts and their consolidation;
- To convey progress of monthly and quarterly meeting of Provincial FMC to Finance Division, Government of Pakistan;

Government of Khyber Pakhtunkhwa

- Establishment of Khyber Pakhtunkhwa Revenue Authority for administration and collection of Sales Tax on Services. The Authority has started functioning w.e.f. 1st July, 2013, and is being strengthened for more effective working.
- Imposition of Sales Tax on Services, and gradual increase of GST on Services through Broadening Tax Base (BTB) and extending of additional services.
- Imposition of Infrastructure Development Cess has been approved. Rules for its collection alongwith other modalities are being framed and its collection will be started shortly.
- Working towards harmonization of Agriculture Income Tax.
- Federal Government has been requested to impose Excise Duty on Oil under Article 161(1) of the Constitution.
- Revision of valuation table and converting it to Market Rates.
- Computerization of Land record to improve collection of stamp duty on land transfers.
- Initiation of a scheme through ADP for carrying out an independent survey of Tax Units/Potential in the Provincial domain.
- Moreover, receipt recovery is being monitored. The concerned departments are being motivated to achieve the assigned targets. As a result the recovery has significantly been improved in the period from July to December, 2013 as compared to the same period of previous year, which is evident from the following table:-

Tax	BE 2012-13	Recovery July to December, 2012	% of collection	BE 2013-14	Recovery July to December, 2013	% of collection
Tax Receipt						
Direct Taxes	1462.100	744.939	50.9	1696.083	1086.415	64.1
Indirect Taxes	2514.000	747.497	29.7	2591.505	1202.640	46.4
GST on Services	9886.394	1359.107	13.7	6000.000	2740.689	45.7
Total:-	**13862.494**	**2851.543**	**20.6**	**10287.588**	**5029.744**	**48.9**

Government of Balochistan

- **The Stamp Act, 1899 (Act II of 1899);**
  The value of immovable property shall be calculated according to valuation table notified by Deputy Commissioner in respect of immovable Property situated in the locality.

- **<u>The Balochistan Land Revenue Act 1967 (Act No.XVII of 1967);</u>**
  The mutation fee is fixed at a certain percentage of the consideration or value of land, the consideration or value of the land shall be calculated according to the valuation table notified by the Collector in respect of the situated in the locality under the Stamp Act 1899 (II of 1899).

- **<u>Levy of tax on capital value (CVT) of immoveable property;</u>**
  Tax on the capital value of an immoveable property, called the Capital Value Tax has been imposed, payable by every person who acquires by purchase, gift, exchange, power of attorney other than revocable and time-bound (not exceeding sixty days) executed between spouses, father and son or daughter, grand parents and grand children, brother and sister, surrender or relinquishment of rights by the owner (whether effected orally or by deed or obtained through court decree)accept by inheritance or gift from spouse, parents, grand parents, brother or a sister of an immoveable property or a right to use thereof for more than twenty years, or renewal of the lease or any premium paid thereon, at following rates:

a) Residential immoveable property (other than flats) situated in an urban area, measuring at least 500 Square Yards or one Kanal (which is less) and more,-

Description of immovable property	**Rate of tax**	
(i)Where the value of immoveable property is recorded.	4% of the recorded value of the landed area or value specified in valuation table	Which ever is higher.
(ii)Where the value of immoveable property is not recorded.	Rs.100/- per square yard of the landed area.	
(iii)Where the immoveable property is a contracted property.	Rs.10/- per square feet of the constructed area in addition to the value worked out above.	

b) Commercial immoveable property of any size situated in an urban area;-

Description of immovable property	**Rate of tax**	
(i)Where the value of immoveable property is recorded.	4% of the recorded value of the landed area or value specified in valuation table	Which ever is higher.
(ii)Where the value of immoveable property is not recorded.	Rs.100/- per square feet of the landed area.	

(iii)Where the immoveable property is a contracted property.	Rs.10/- per square feet of the constructed area in addition to the value worked out above.	

c) Residential flats of any size situated in an urban area;-

Description of immovable property	Rate of tax
(i)Where the value of immoveable property is recorded.	4% of the recorded value.
(ii)Where the value of immoveable property is not recorded.	Rs.100/- per square feet of the covered area.

- **<u>Amendment in Act No.V of 1958;</u>**
  The Balochistan urban Immoveable property Tax Act, 1958 (Act No.V of 1958) through amendment the exemption threshold has been reduced from current residential houses constructed area of 4500 sq.ft. to 2500 sq.ft. (owned and self-occupied for residential purpose by every citizen).

- **<u>Amendment in Ordinance 1 of 2000;</u>**
  The Balochistan Sales Tax Ordinance 2000 the existing schedule of taxable services has been expended significantly carrying PCT heading and made in line with the deliberations and agreements reached amongst the Federal Government and Provinces on RGST.

5.3: Fiscal Discipline

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

- Allocated resources for current expenditure and Development expenditure are being released as per mechanism/procedure as laid down in revised system of financial control and budgeting.
- Revenue collection and expenditure are monitored on monthly basis.
- Provincial revenues/expenditure are also being monitored on monthly basis.
- Efforts are being made to avoid un-budgeted expenditure.
- Cut has been imposed at 30% of budget estimates 2013-14 excluding debt servicing, defence, pay and allowances, subsidies and grants shall be reduced by 30%.

- No vehicle shall be purchased except operational vehicles of law enforcement agencies and critical development projects.
- Principal Accounting Officers will ensure rationalization of utility bills.

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

Government of Punjab

- Punjab government is releasing development funds on quarterly basis in order to match transfer of development funds with available fiscal space to Punjab Government.
- Release of development funds is strictly monitored alongwith actual expenditure against the released amounts to avoid unnecessary parking of funds.
- Punjab Government is following strict austerity measures to reduce expenditure on purchase of durable goods. Purchase of all durable goods is subject to clearance of the high level austerity committee headed by Finance Minister.

Government of Sindh

- No advances are being drawn on Abstract Bill/Pre-receipted Bill.
- New Expenditure is being released keeping in view the ways and means position.
- Expenditure in relaxation of rules is not being allowed.
- Payment of Salary is being treated as the first charge followed by Non-Salary component to Current Expenditure and PSDP.
- No scheme involving creation of posts is being approved by any forum.
- Recoveries of dues outstanding against Autonomous /Local Government are being made at source from all releasable amounts.
- Releases are linked with the Ways and Means position both for Development and Non-Development budget.
- Close monitoring of reconciliation of provincial receipts and expenditure with Accountant General Sindh, and Treasury/District Accounts Offices in Sindh.
- Monitoring of utilities bills to ensure that bills are being paid by the administrative departments routinely. Finance Department is keeping a close contact with all the departments in this context.
- No liability beyond budgetary authorization/released for a particular time span is being allowed.
- Foreign visits/trainings on Government expenses have been curtailed.
- Ban has been imposed on purchase of vehicles. No vehicles are being purchased other than operational vehicles for Police.

- Even the purchase of physical assets like air-conditioners, generators computers have been totally stopped and is being allowed only where need is most urgent and that too with the approval of Chief Minister only.
- In order to streamline administrative discipline and reduce unnecessary burden on the provincial exchequer, the Government of Sindh has restructured administrative departments. The number of departments has been reduced from 47 to 39.
- **Cash Monitoring:** The cash balance position is being closely monitored with State Bank of Pakistan. The releases of funds are made on the basis of availability of cash in Non-Food Account No.1. Finance Department remains in contact with SBP on daily basis and before issuing any advice for release of funds it first makes ensure that cash position must remain within the Ways and Means limit. Government of Sindh has developed a mechanism where releases are being monitored at three stages. First when release is made for a particular ADP schemes, second when the funds are transferred into Assignment Account and third, when the Assignment Accounts cheques are endorsed by Treasury. This elaborates mechanism of monitoring helped Government of Sindh in keeping its cash balances within Ways and Means limit during financial year 2013-14. The Government of Sindh is in process of further strengthening institutionally this mechanism.
- **Medium Term Budgetary Framework (MTBF)**
    - Mandate to implement Medium Term Budgetary Framework (MTBF) in all departments of Sindh Government. MTFB was initiated from FY 2009-10 on pilot basis and has been successfully implemented in the Department of Education & Literacy, Irrigation, Agriculture, Livestock & Fisheries, Energy, Special Education, Social Welfare, Health Department and all their subordinate field offices.
    - Capacity Building Workshops for each MTBF department for preparation of budget under MTBF including underlying processes and strategies. Group activities or practical exercises are also being conducted in the workshops. Series of Handholding support are also provided to all DDOs of MTBF departments for the finalization of budget estimates as per indicative budget ceilings.
- **Reforms Program with World Bank**
    - Currently, Government of Sindh is engaged with the World Bank in exercise of introducing reforms on procurement, public finance management and resource mobilization etc.
    - The vital areas are public financial management, revenue mobilization, and procurement.
    - The strategic engagement process will focus on the 3 core project components as detailed below:
        - Revenue Mobilization;
        - Public Financial Management;
        - Participative budgeting;

- Out-put based budgeting – MTBF
- Strengthening of PIFRA
- Introduction of Internal audit in all departments
- Automation of PAC Secretariat
- Automation of pensioners' data
- Strengthening of Bureau of Statistics
- Public accounts
- Public Debt Management
- Sindh Public Procurement Regulatory Authority (SPPRA)
- Capacity Building of Government Functionaries

Government of Khyber Pakhtunkhwa

- The provincial government has been releasing current and development funds as per approved release policy to observe fiscal discipline and to keep the expenditure within the available fiscal space.
- A committee/working group also has been established to provide recommendations on austerity measures and to review & rationalize the expenditure and staffing position in various departments/entities, and improvement in various facets of fiscal discipline.
- The Provincial Cabinet has approved the concept of Internal Audit System primarily in the departments of Education, Health, C&W and Police which will be rolled out to the rest of departments subsequently.
- Pension Automation and Payroll Auditing have been continued to plug leakages in the Provincial Pension & Salary.
- Stringent economy measures have been issued which also include ban on purchase of vehicles, creation of new posts, slashing down current expenditure and other measures.
- PFM reforms such as MTBF and output based budgeting continued over the period.
- As per decision arrived at in the Council of Common Interest (CCI) meeting held on 31-7-2013, the Khyber Pakhtunkhwa will strive to give surplus of Rs.17.0 billion from increased revenue transfers. Accordingly, the provincial government has been striving to give surplus of Rs.17.0 billion at the close of financial year 2013-14 subject to the condition of release of share taxes, straight transfers and Net Hydel Profits by the Federal Government as per budgetary estimates 2013-14.
- The Government of Khyber Pakhtunkhwa has committed not to go in overdraft with the State Bank of Pakistan and the position of cash balance remained satisfactory over the first biannual period (July - December, 2013).
- A working group under the chairmanship of Senior Minister for Finance has been established which inter-alia would propose recommendation for reforms including Audit and Review.

List of Abbreviations

AIT	Agriculture Income Tax
APTTA	Afghan Pakistan Transit Trade Agreement
BTB	Broadening Tax Base
CCI	Council of Common Interest
CREST	Computerization of Risk-Base Evaluation of Sales Tax
CVT	Capital Value Tax
DDO	Drawing and Disbursing Officer
ED.	Excise Duty
EXCL	Excluding
FBR	Federal Board of Revenue
GDP	Gross Domestic Product
GDP(mp)	Gross Domestic Product (market price)
GDS	Gas Development Surcharge
GSTS	General Sales Tax on Services
ITMS	Integrated Tax Management System
MMBTU	Million Metric British Thermal Unit
MTBF	Medium Term Budgetary Framework
NFC	National Finance Commission
NG	Natural Gas
OZT	Octroi and Zilla Tax
PAC	Public Accounts Committee
PIFRA	Project to Improve Financial Report and Auditing
PSDP	Public Sector Development Program
SAP	System Application Products
SPPRA	Sindh Public Procurement Regulatory Authority
WEBOC	Web Based One Customs
WWF	Worker Welfare Fund