# REPORT ON
# 2ND BIANNUAL MONITORING ON THE IMPLEMENTATION OF NFC AWARD

*(January – June 2012)*

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, provide that:

> *"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 in the Constitution, 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 in this regard before both Houses of the Parliament. The reports for the period from July 1, 2010 to December 31, 2010, from January 1, 2011 to June 30, 2011 and from July 1, 2011 to December 31, 2011 have already been laid before the Parliament and Provincial Assemblies.

3. The bi-annual monitoring report for the period from January to June, 2012 was approved by the Finance Ministers in Islamabad in meeting held on 14th March, 2013. 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

**TABLE OF CONTENTS**

# INTRODUCTION

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

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 have to monitor implementation of the Award biannually and lay a report in this regard in both Houses of the Parliament and the Provincial Assemblies. As such, the implementation status of the above provisions of the President's Order, i.e., Distribution of Revenues and Grants-in-Aid Order has been explained in the following chapters.

# DIVISION OF DIVISIBLE POOL TAXES

## 2.1: FBR Tax Receipts

2.1.2 During the financial year (FY) 2011-12, Federal Board of Revenues (FBR) has reported tax receipts of Rs.1,883.03 billion as against Rs.1,558.55 billion collected in FY 2010-11. Out of this Rs.840.74 billion was reported during the first half and Rs.1042.29 billion during the second half of the financial year as against Rs.652.41 billion and Rs.906.14 billion respectively reported during the corresponding periods of FY 2010-11. The position has been summarized in the following table:

| 2010-11 | | | 2011-12 | | | *Growth* |
|---|---|---|---|---|---|---|
| 1ST Half | 2nd Half | Total | 1ST Half | 2nd Half | Total | |
| 652.41 | 906.14 | 1558.55 | 840.74 | 1042.29 | 1883.03 | *20.8%* |
| *41.9%* | *58.1%* | *100.0%* | *44.6%* | *55.4%* | *100.0%* | |

## 2.2: Distribution of Divisible Pool Taxes

2.2.1 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. The components of divisible pool taxes have been laid down in clause (1) of Article 3 of the Order. Some non-divisible pool components are also part of FBR receipts which include income tax paid out of the Federal Consolidated Fund. Accordingly, against FBR tax receipts of Rs.1883.03 billion, the Gross divisible pool taxes worked out to be Rs.1800.30 billion. Details are given below:

Rs. in Billion

| | FY 2011-12 | 2nd half of 2011 -12 |
|---|---|---|
| Total Collection FBR Receipts | **1883.03** | **1042.29** |
| Less Non-Divisible Pool Components | **82.73** | **55.57** |
| WWF | 18.33 | 7.08 |
| GST on Services | 39.90 | 39.90 |
| Excise Duty on Natural Gas | 12.03 | 6.18 |
| Export Development Surcharge | 5.27 | -1.78 |
| Income Tax Paid out of the Federal Consolidated Fund | **7.20** | **4.19** |
| Gross Divisible Pool Tax | **1800.30** | **986.72** |

## 2.2: Vertical Distribution

2.2.1 After subtracting the non-divisible pool components, the net divisible pool would be determined by deducting cost of collection (1% as recommended by the NFC). The entire proceeds have been distributed between the federation and provinces, exactly in accordance with the provisions of these two articles of the Order ibid. The details of vertical tax-wise distribution are as follows:

**I. Position of Entire Financial Year-2011-12**

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 | **1800.30** | **18.08** | **1782.22** | **17.82** | **1764.40** | **1014.53** | **1032.35** |
| Income Tax | 713.17 | 7.21 | 705.96 | 7.06 | 698.90 | 401.87 | 408.93 |
| Wealth Tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Value Tax | 0.13 | 0 | 0.13 | 0 | 0.13 | 0.07 | 0.07 |
| Sales Tax (Excl.GST on Services) | 964.95 | 7.65 | 757.30 | 7.57 | 149.72 | 431.09 | 438.66 |
| Federal Excise (Excl. ED on NG) | 110.43 | 1.10 | 109.32 | 1.09 | 108.23 | 62.23 | 63.33 |
| Customs (Excl. Export Dev. Surcharge) | 211.63 | 2.12 | 209.51 | 2.10 | 207.42 | 119.27 | 121.36 |

**II. Position during 2nd Half (Jan. – June, 2012) of Financial Year-2011-12**

(Rs in billion)

| | FBR Receipts | Collection Charges (1%) | Net Div. Pool Taxes | 1% for WoT for Khyber Pakhtunkhwa | Balance Net Div. Pool | Prov. Share (57.5%) |
|---|---|---|---|---|---|---|
| Divisible Pool Taxes | **986.72** | **9.91** | **976.81** | **9.77** | **967.04** | **556.05** |
| Income Tax | 414.86 | 4.19 | 410.67 | 4.11 | 406.56 | 233.77 |
| Wealth Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Value Tax | 0.13 | 0 | 0.13 | 0 | 0.13 | 0.07 |
| Sales Tax (Excl.GST on Services) | 383.94 | 3.84 | 380.10 | 3.80 | 376.30 | 216.37 |
| Federal Excise (Excl. ED on NG) | 62.83 | 0.63 | 62.20 | 0.62 | 61.58 | 35.41 |
| Customs (Excl. Export Dev. Surcharge) | 124.97 | 1.25 | 123.72 | 1.24 | 122.48 | 70.43 |

## 2.3: Horizontal Distribution

2.3.1 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. Further, Clause (3) of Article 4 of the Order ibid guarantees that the share of Balochistan province shall receive the projection sum of Eighty three billion rupees from the provincial share in the net proceed of divisible pool taxes in the first year of 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. In order to match this guaranteed share, Federal Government has paid Rs.1.04 billion from its own resources to Government of Balochistan during the entire financial year. In the first half of the FY-2011-12 this was Rs.9.20 billion. However, due to improvement in FBR receipts, this additional burden was reduced to Rs.1.04 billion. The details of horizontal tax-wise distribution are as follows:

### I. Position of Entire Financial Year-2011-12

Rs. in billion

| | Total | Punjab | Sindh | Khyber Pakhtunkhwa | Balochistan |
|---|---|---|---|---|---|
| | 100% | 51.74% | 24.55% | 14.62% | 9.09% |
| **Divisible Pool Taxes** | **1014.53** | **524.92** | **249.07** | **148.32** | **92.22** |
| Income Tax | 401.87 | 207.93 | 98.66 | 58.75 | 36.53 |
| Wealth Tax | 0 | 0 | 0 | 0 | 0 |
| Capital Value Tax | 0.07 | 0.04 | 0.02 | 0.01 | 0.01 |
| Sales Tax (Excl.GST on Services) | 431.09 | 223.05 | 105.83 | 63.03 | 39.19 |
| Federal Excise (Excl. ED on NG) | 62.23 | 32.20 | 15.28 | 9.10 | 5.66 |
| Customs (Excl. Export Dev. Surcharge) | 119.27 | 61.71 | 29.28 | 17.44 | 10.84 |

### II. Total Figures for 2nd Half (Jan. – June, 2012) of Financial Year-2011-12

(Rs in billion)

| | Total | Punjab | Sindh | Khyber Pakhtunkhwa | Balochistan |
|---|---|---|---|---|---|
| | 100% | 51.74% | 24.55% | 14.62% | 9.09% |
| **Divisible Pool Taxes** | **556.05** | **287.70** | **136.51** | **81.29** | **50.55** |
| Income Tax | 233.77 | 120.95 | 57.39 | 34.18 | 21.25 |
| Wealth Tax | 0 | 0 | 0 | 0 | 0 |
| Capital Value Tax | 0.07 | 0.04 | 0.02 | 0.01 | 0.01 |
| Sales Tax (Excl.GST on Services) | 216.37 | 111.95 | 53.12 | 31.63 | 19.67 |
| Federal Excise (Excl. Excise Duty on NG) | 35.41 | 18.32 | 8.69 | 5.18 | 3.22 |
| Customs (Excl. Export Dev. Surcharge) | 70.42 | 36.44 | 17.29 | 10.30 | 6.40 |

In addition to the normal share under the Divisible Pool taxes, Khyber Pakhtunkhwa is entitled to get 1% of undivided divisible pool taxes also on account of losses on War on Terror. Similarly, the NFC Award guarantees that Balochistan would receive the share as per budgetary projection irrespective of actual FBR receipts position and the shortfall, if any, would be borne by the Federal Government. As such, the shares of Khyber Pakhtunkhwa and Balochistan from divisible pool taxes have emerged as follows:

(Rs in billion)

| | **FY 2011-12** | **2nd Half of FY 2011-12** |
|---|---|---|
| Khyber Pakhtunkhwa | | |
| Share in the Divisible Pool (14.62%) | 148.32 | 81.29 |
| 1% War on Terror | 17.82 | 9.77 |
| Total:- | 166.15 | 91.06 |
| | | |
| Balochistan | | |
| Share in the Divisible Pool (9.09%) | 92.22 | 50.55 |
| Additionality provided by Federal Government | 1.04 | -3.91 |
| Total:- | 93.26 | 46.64 |

# STRAIGHT TRANSFERS/GRANTS-IN-AID

## 3.1: Distribution of Royalty on Crude Oil

3.1.1 Article 5 of the Order (Award) relates to the distribution of Net Proceeds of Royalty on Crude Oil. M/o Petroleum and Natural Resources is responsible for collection of this levy which is reported to Finance Division on a monthly basis for onward transfer to provinces. The entire net proceeds reported by M/o Petroleum and Natural Resources during the financial year 2011-12 have been distributed amongst the provinces in accordance with said provision. Details are as follows:

Rs in billion

| | **Punjab** | **Sindh** | **Khyber Pakhtunkhwa** | **Balochistan** | **Total** |
|---|---|---|---|---|---|
| Royalty on Crude Oil (FY-2011-12) | 4.784 | 7.731 | 11.652 | 0.332 | **24.167** |
| 2nd half (Jan. – June,2012) of FY – 2011-12 | 1.825 | 5.214 | 6.882 | 0.332 | **13.914** |

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

3.2.1 Article 6 of the Order (Award) governs the distribution of Surcharge on Gas (GDS) and Royalty on Natural Gas. M/o Petroleum and Natural Resources is the collecting agency of these two levies. The proceeds so collected are reported to Finance Division on monthly basis for onward transfer to provinces. The entire net proceeds of Royalty and Surcharge on Gas reported by M/o Petroleum and Natural Resources have been distributed in accordance with the above provisions of the Award. Details are as follows:

**I. Total Figures for the Financial Year-2011-12**

Rs in billion

| | Punjab | Sindh | Khyber Pakhtunkhwa | Balochistan | Total |
|---|---|---|---|---|---|
| Royalty On NG | **1.645** | **26.119** | **4.154** | **4.380** | **36.297** |
| Gas Dev. Surcharge | 1.198 | 10.737 | 1.786 | 4.587 | 18.309 |
| Total | **2.843** | **36.855** | **5.940** | **8.967** | **54.606** |

**II. Total Figures for 2nd Half (Jan. – June, 2012) of Financial Year-2011-12**

Rs in billion

| | Punjab | Sindh | Khyber Pakhtunkhwa | Balochistan | Total |
|---|---|---|---|---|---|
| Royalty On NG | **0.621** | **15.586** | **2.185** | **0.558** | **18.946** |
| Gas Dev. Surcharge | **0.500** | **3.376** | **0.610** | **3.788** | **8.275** |
| Total | **1.121** | **20.083** | **2.785** | **7.141** | **27.221** |

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 in accordance with relevant provision, subject to maximum of Rs.10 billion. The amount was to be paid to Balochistan in five years. Therefore, Federal Government accordingly allocated Rs.2.0 billion which were paid to Government of Balochistan during the financial year 2011-12.

3.2.3 In addition to this amount, Rs.10 billion were also allocated in FY-2011-12 on account of arrears of GDS prior to 1991 under Aghaz-e-Huqooq-e-Balochistan Package. This amount was also paid to Government of Balochistan during the financial year 2011-12.

## 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 of this levy. The proceeds so collected are reported to Finance Division on monthly basis for onward transfer to provinces. The entire net proceeds have been distributed in accordance with the said provision. Details are as follows:

Rs in billion

| | **Punjab** | **Sindh** | **Khyber Paktunkhwa** | **Balochistan** | **Total** |
|---|---|---|---|---|---|
| Excise Duty on Gas (FY-2011-12) | 0.520 | 7.262 | 1.174 | 1.890 | **10.846** |
| 2nd half (Jan. – June,2012) of FY – 2011-12 | 0.280 | 3.992 | 0.644 | 1.040 | **5.956** |

## 3.4 Grants-in-Aid to Sindh Province

3.4.1 Under Article 7 of the Order ibid (Award), the province of Sindh is entitled to receive a grant-in-aid equivalent to 0.66% of the provincial share in the divisible pool. A sum of Rs.7 billion was allocated in the Federal Budget for this purpose. During the financial year 2011-12, the provincial share in the divisible pool was Rs.1014.53 billion. Accordingly, said grant-in-aid was worked out to be Rs.6.70 billion which was paid to Government of Sindh during financial year 2011-12.

# GENERAL SALES TAX ON SERVICES

## 4.1 Collection and Distribution of GST on Services

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

4.1.2 Government of Sindh established Sindh Revenue Board (SRB) and started collecting GST on Services by itself. The other three provinces maintained status-quo during period of report and FBR collected GST on Services on their behalf. As per Civil Accounts of Sindh Government for June Final 2012, the SRB collected Rs.23.9 billion on this account. For whole financial year 2011-12, FBR collected an amount of Rs.39.90 billion, which also included some amount relating to FY 2010-11. Therefore, Sindh province also claimed their share out of this amount. FBR while reporting the final reconciled FBR Receipts on 4-9-2012 conveyed bifurcated province-wise and group-wise collection of GST Services except for a small portion of the proceeds. As such, the proceeds of GST on Services were distributed during period of report as follows:

**WORKING FOR DISTRIBUTION OF GST ON SERVICES**

| | Gross | Punjab | Sindh | Khyber Pakhtunkhwa | Balochistan | No break up | ICT |
|---|---|---|---|---|---|---|---|
| Group-I | 1,486.000 | 922.000 | 422.000 | 52.000 | 1.000 | | 89.000 |
| Group-II | 33,217.000 | 15,856.000 | | 4,258.000 | 1,545.000 | 2,599.000 | 8,959.000 |
| Group-III | 5,197.000 | 3,239.000 | | 180.000 | 45.000 | 1,196.000 | 537.000 |
| | 39,900.000 | 20,017.000 | 422.000 | 4,490.000 | 1,591.000 | 3,795.000 | 9,585.000 |
| Distribution of Group-II services with no break up (ratios provided by PTA has been adopted for distribution) | 2,599.000 | 1,420.354 | 669.502 | 277.313 | 115.915 | | 115.915 |
| | | 54.65% | 25.76% | 10.67% | 4.46% | | 4.46% |
| Distribution of Group-III services with no break up (ratio given in the Record Note for distribution of Group-III Services have been adopted by proportionately reducing 136.01% to 100%) | 1,196.000 | 531.024 | 436.650 | 137.301 | 88.026 | | |
| | | 44.40% | 36.76% | 11.48% | 7.36% | | |
| Grand Total (Provinces only) | **30,199.085** | **21,968.378** | **1,531.152** | **4,904.614** | **1,794.941** | | |
| Less 1% Collection charges | 301.991 | 219.684 | 15.312 | 49.046 | 17.949 | | |
| GST on Services paid to provinces | 29,897.094 | 21,748.694 | 1,515.840 | 4,855.568 | 1,776.992 | | |

4.1.3 The above arrangements of distribution of GST on Services are provisional and subject to adjustment based on final decision in the matter by the provinces.

# MISCELLANEOUS PROVISIONS OF THE AWARD

## 5.1: Increase in Tax to GDP Ratio

5.1.1 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. NFC also recommended that provinces initiate steps to effectively tax the agriculture and real estate sectors. The tax efforts recommended by the NFC during the implementation of the Award are as follows:

**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 | 100 | 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* |

5.1.2 As against the above recommended path, the tax to GDP ratio witnessed during the first and second years of the Award are as follows:

| | **2010-11** | **2011-12** | **Growth (%)** |
|---|---|---|---|
| **Total Tax Receipts** | **1,716.42** | **2,028.98** | **18.2%** |
| | 9.5% | 9.8% | |
| **Federal** | 1,634.80 | 1945.7 | **19.0%** |
| | *9.1%* | *9.4%* | |
| *of which FBR Receipts* | *1,558.6* | *1,906.9* | *22.4%* |
| **Provinces** | 81.28 | 83.55 | **2.8%** |
| | *0.5%* | *0.4%* | |
| Punjab | 32.36 | 42.14 | **30.2%** |
| Sindh | 44.12 | 36.44 | **-17.4%** |
| Khyber Pakhtunkhwa | 3.72 | 3.94 | **5.9%** |
| Balochistan | 1.08 | 1.03 | **-5.0%** |
| GDP (mp) | 18,033 | 20,654 | **14.5%** |
| Provincial own receipts are excluding GST on Services<br>FBR Receipts including GST on Services | | | |

The above table shows that if the same trend is continued then it would be impossible to achieve 15% tax to GDP ratio in the terminal year of the Award i.e. 2014-15.

5.1.3 Federal Government is initiating certain measures to properly exploit tax receipts. A report in the matter received from FBR is at **Annex-II**. The agriculture income taxes collected by the provinces are very negligible despite the fact agriculture sector is one of the major contributors of the GDP. As such Federal Government is facilitating provinces to harmonize taxation on agriculture income. The main objective of this exercise is to properly explore potential of tax collection from this sector and bring it at par with other sectors.

5.1.4 Certain measures to increase own receipts as conveyed by provincial governments till period of report are reproduced as follows:

**Province of Punjab**

**Revenue Generation (clause-2 of Article-9)**

- Government is striving to considerably expand the revenue base and fully tap the existing provincial resource. A special emphasis has been placed on improving the collecting efficiency of tax administering departments. It may be added that Chief Secretary Punjab personally monitors the progress of revenue collection and chairs meetings of provincial own receipts on regular basis. For effective monitoring revenue collection, six-monthly targets have been assigned to the departments under directions of the Chief Secretary. For FY 2012-13, a target of Rs.129.839 billion of provincial own receipts have been fixed. Major revenue collecting departments have been instructed to maximize their revenue collection through structural reforms; administrative measures; special campaigns etc.

- Government has created Punjab Revenue Authority as a major reform initiative under the Act of Assembly initially with the mandate to administer and collect Sales Tax on Services followed by collection of other important provincial taxes. It is further added that for improving the administration of Sales Tax on Services, Government has introduced a comprehensive Punjab Sales Tax on Service Act, 2012 covering imposition, collection, management and enforcement of this tax. The Authority has started collecting Sales Tax on Services w.e.f. 1st July, 2012 and a collection target of Rs.40.496 billion has been assigned to it by the Government for FY 2012-13.

- In order to enhance revenue collection and reduce hassle for the public, Government has levied a lump sum Token Tax of Rs.10,000/- for motorcars and jeeps upto 1000 cc at the time of registration (life-time) by amending the Punjab Motor Vehicles Taxation Act, 1958.

- To facilitate the taxpayers in deposit of Property Tax, Government has extended the period from 02 months to 03 months for payment of the Tax with a rebate of 5%. Further amendments have been made in the Punjab Urban Immovable Property Tax Act, 1958 to encourage payment of the Tax on regular yearly basis. In order to ensure timely deposit of the tax, late payment surcharge at the rate of 1% of the gross payable tax has been imposed on the first day of every month of delay if the tax is not deposited by the due date. Similarly, data of property tax in few important cities/locations having maximum revenue potential is being automated along with emphasis on improving the processes aimed at 'ease of doing business' for tax payer's facilitation. Moreover, in collaboration with London School of Economic's Research Team, measures for improving the collection of property tax are also under implementation.
- Amendments have been made in the Stamp Act, 1899 to streamline the procedure for assessment and collection of Capital Value Tax. Further, powers of the concerned authorities have been defined in case of non-payment of the tax. These measures would improve compliance of the tax.
- Amendments have also been made in the relevant sections of Punjab Finance Act, 2011 pertaining to Farm House Tax and Education Cess on Club in order to bring more clarity in the laws and improve administration of these taxes.
- Government levied Excise Duty @ Rs.2 per liter on manufacturing of rectified spirit in distilleries.

### 5.2: Steps being taken by Federal/Provincial Governments

5.2.1 The NFC recommended 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. A report in the matter received from FBR is at **Annex-II**. The efforts being taken by the Provincial Governments are as follows:

**Province of Punjab**

**Fiscal Discipline Measures (clause-3 of Article-9)**

- Government has been releasing development funds on biannual basis in order to match transfer of development funds with available fiscal space to Punjab Government.
- Government has been 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.

- Release of development funds is being strictly monitored alongwith actual expenditure against the released amounts to avoid unnecessary parking of funds;
- The robust system developed in FY 2010-11 for management of cash balance has been continued through FY 2011-12. In this system, the liabilities of the Government, accruing against budgeted/authorized amounts, are monitored at three stages i.e. bill generation, receipt of cheques in treasury office and authorization of payment and withdrawal of cash from the government account;
- In order to minimize un-necessary expenditure, only 40% of non-salary budget has already been allocated for the first half of FY 2012-13. However, its utilization has further been checked by placing only 20% of the released budget on SAP system for the first quarter of FY 2012-13. The remaining 20% budget will transferred at the start of 2$^{nd}$ quarter through SAP system.

**Province of Khyber Pakhtunkhwa**

- With a view to observing fiscal discipline and streamlining the management in public accounts, the Government of Khyber Pakhtunkhwa has taken certain measures such as uniform expenditure in each month, clearance of accrued liabilities in time and encashment of all cheques by 30$^{th}$ June, 2012.
- The Government of Khyber Pakhtunkhwa has approved certain guiding principles for all departments to curtail the current expenditure in the form of Economy measures for the year 2011-12.
- The Government of Khyber Pakhtunkhwa has committed not to go in the overdraft from the State Bank of Pakistan and the cash balance position of the Provincial Government with State Bank of Pakistan is satisfactory.
- The Province's own receipts and incurrence of expenditure are monitored each month for maintenance of fiscal discipline in the province.

**Province of Balochistan**

- **Pre-mature retirement of Domestic Debt;**

  The Government of Balochistan is the only province which has retired all domestic debt i.e. Cash Development Loan and Blocked Accounts No.II with State Bank of Pakistan. After NFC Award 2009 started from 2012-11 the Government of Balochistan has not availed any overdraft from the State Bank of Pakistan and has always closed its cash balance in credit on terminal of fiscal years.

- **<u>Constitution of Provincial Fiscal Monitoring Committee (PFMC);</u>**

  The Government of Balochistan has constituted Fiscal Monitoring Committee under the chairmanship of Finance Minister to improve the reconciliation process between Government departments and A.G. Balochistan and bringing fiscal discipline in the Government departments. The terms of reference of the Committee are as under:-

  a) To ensure timely reconciliation of Receipts and Expenditure for each Administrative Department.

  b) To ensure timely compilation of Civil Accounts.

  c) To ensure reconciliation between Civil Accounts and Cash Accounts maintained by State Bank of Pakistan.

  d) To review performance of Departmental Accounts Committee.

## 5.3: Grants in times of unforeseen calamities

5.3.1 The NFC recommended that Federal Government may assist the provinces through specific grants in times of unforeseen calamities. Federal Government extended following grants to the provincial government during the period under report:

i. Rs.3.900 billion were released to Government of Khyber Pakhtunkhwa on account of expenditures incurred on Law and Order in the province.

ii. Rs.3.958 billion were released to Government of Balochistan for further payment to SBP on account of over draft of the province.

iii. Rs.0.740 billion were released to Government of Balochistan for meeting the pay and allowances of 5000 posts under Aghaz-e-Huqooq-e-Balochistan Package.

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