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

(January – June 2018)

Government of Pakistan
NATIONAL FINANCE COMMISSION SECRETARIAT

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EXECUTIVE SUMMARY

This 2nd Biannual Monitoring Report on implementation of 7th NFC award covers the period from January to June, 2018 of Financial Year 2017-18. Total tax collection as reported by FBR remained Rs.1,890.169 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.1,822.001 billion. The Provincial share comes to Rs.1,047.651 billion, leaving a balance of Rs.774.35 billion for Federal Government. The Provincial share has been distributed as Rs.542.055 billion to Punjab (51.74%), Rs.257.198 billion to Sindh (24.55%), Rs.153.167 billion to Khyber Pakhtunkhwa (14.62%) and Rs.95.232 billion to Balochistan (9.09%). Khyber Pakhtunkhwa got Rs.18.404 billion on account of War on Terror.

On account of Royalty on Crude Oil, Gas Development Surcharge and Royalty on Natural Gas Rs.14.994 billion, Rs.6.015 billion and Rs.23.579 billion respectively were collected and transferred to the Provinces during January-June, 2018. Similarly, an amount of Rs.6.851 billion on account of excise duty on Natural Gas has been transferred to Provinces during the report period.

The Province of Sindh is entitled to receive grant-in-aid equivalent to 0.66% of the provincial share in the net proceeds of the divisible pool, as compensation for losses on account of abolition of Octroi and Zilla Tax. An amount of Rs.6.914 billion on this account was released to Government of Sindh accordingly.

PREFACE

Article 160 of the Constitution of Islamic Republic of Pakistan authorizes the President of Pakistan to approve distribution of revenues between the federation and the provinces through an Order (the NFC Award), on the recommendations of the National Finance Commission (NFC).

2. The 7th NFC 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).

3. 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."*

4. 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.

5. The bi-annual monitoring report for the period from January to June, 2018 was approved by the Finance Ministers in a meeting held on 4th May, 2019, at Islamabad for laying before both Houses of the Parliament and Provincial Assemblies.

6. Report contains details of FBR collections, vertical. and horizontal distribution of shares of divisible pool and straight transfers to provinces as well as Federal and Provincial Governments efforts for streamlining tax collection and fiscal discipline during the period.

MUHAMMAD YOUNUS DAGHA,
Secretary
Finance Division.

Islamabad, the 22nd May 2019

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INTRODUCTION

1.1 The NFC Award 2009 has been in implementation since 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:

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 (Articles 5 & 6 of the Order).

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

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

e. Achieving 15% Tax to GDP ratio by 2014-15. To achieve this target, a path has been recommended by the NFC for both Federal and Provincial Governments (Clause 2 of Article 9 of the Order).

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

1.2 As provided under clause (3B) of Article 160 of the Constitution, the Federal and Provincial Finance Ministers have been mandated to monitor implementation of the Award biannually and lay reports in this regard in both Houses of the Parliament and the Provincial Assemblies. The following pages present the implementation status of the above provisions of the President's Order, i.e., Distribution of Revenues and Grants-in-Aid Order, 2010.

DIVISION OF DIVISIBLE POOL TAXES

Articles 1 and 2 consist of title and definition of the President's Order "Distribution of Revenues and Grants-in-Aid Order, 2010 (Award)" and therefore, no action is required on these Articles.

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

2.1: FBR Tax Receipts

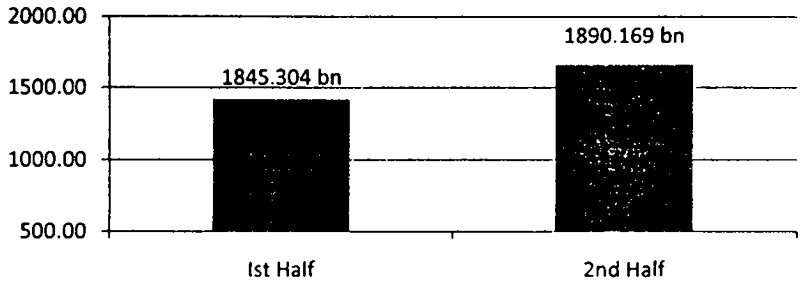
2.1.1 Federal Board of Revenues (FBR) reported the following tax collection for financial year 2017-18:

TABLE-I: Total FBR Collection during FY: 2017-18

Rs. in Billion

A	Provisional collection reported on fortnightly basis during FY 2017-18	3,420.285
B	Arrears worked out on receipt of final reconciled collection for FY 2016-17 reported in FY 2017-18	315.188
C	**Total Collection reported during FY 2017-18 (A+B)**	**3,735.473**

2.1.2 The releases to the Provinces during the financial year 2017-18 were made on the basis of FBR collection amounting to Rs.3,735.473 billion. Out of this collection, Rs.1,845.304 billion was reported during first half (July to December, 2017) and Rs.1,890.169 billion was reported during second half (January to June, 2018) of the financial year 2017-18. The following chart shows a snapshot of collection during the two halves:



2.2 Distribution of Divisible Pool Taxes

2.2.1 The components of divisible pool taxes are laid down in clause (1) of Article 3 of the President's Order 2010. Total receipts of FBR also include some non-divisible pool components. Therefore, after deducting such components, the gross divisible pool taxes were worked out as Rs.3,691.321 billion against total tax receipts of Rs.3,735.473 billion. Gross divisible pool taxes for 2nd half of F.Y.2017-18 (January-June, 2018) come to Rs.1,890.169 billion. A detailed breakup of non-divisible pool components is given as follows:

TABLE-II: Details of Non-Divisible Pool Components

(Rs. in Billion)

	FY 2017-18	2^{nd} half 2017-18
Total Collection FBR Receipts	**3,735.473**	**1.890.169**
Less Non-Divisible Pool Components	**44.152**	**23.923**
WWF	25.005	13.558
GST on Services	2.659	0.880
Excise Duty on Natural Gas	10.838	6.990
Income Support Levy	-	-
Exp. Development Surcharge	5.650	2.495
Gross Divisible Pool Tax	**3,691.321**	**1,866.246**

2.3: Vertical Distribution

2.3.1 After subtracting the non-divisible pool components out of FBR taxes, net amount of divisible pool taxes is determined by deducting cost of collection. The entire proceeds are then distributed between the Federation and Provinces in accordance with the provisions of Articles 3 & 4 of the Order. The details of vertical distribution for entire Financial Year 2017-18 and 2nd half of FY-20017-18 (Jan-June, 2018) are as follows:

TABLE-III: Vertical Distribution of Share For F.Y-2017-18

(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	**3.691.320**	**51.080**	**3,640.240**	**36.402**	**3,603.838**	**2,072.207**
Income Tax	1,416.706	* 28.334	1,388.372	13.884	1,374.488	790.331
Wealth Tax	-	-	-	-	-	-
Capital Value Ta	4.639	0.047	4.592	0.046	4.546	2.614
Sales Tax (Excl. GST on Services)	1,462.647	14.626	1,448.021	14.480	1,433.541	824.286
Federal Excise (Excl. ED on NG)	207.081	2.071	205.010	2.050	202.960	116.702
Customs (Excl. Export Dev. Surcharge)	600.247	6.002	594.245	5.942	588.303	338.274

* Includes deduction of Income Tax Paid out of the Federal Consolidated Fund

TABLE-IV: Vertical Distribution of Share For 2nd Half FY-2017-18 (January - June, 2018)

(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	1,866.245	25.840	1,840.405	18.404	1,822.001	1,047.651
Income Tax	717.802	* 14.356	703.446	7.035	696.411	400.437
Wealth Tax	-	-	-	-	-	-
Capital Value Tax	2.681	0.027	2.654	0.027	2.627	1.510
Sales Tax (Excl.GST on Services)	728.049	7.280	720.769	7.207	713.562	410.298
Federal Excise (Excl. ED on NG)	106.333	1.064	105.269	1.053	104.216	59.925
Customs (Excl. Export Dev. Surcharge)	311.380	3.113	308.267	3.082	305.185	175.481

* Includes deduction of Income Tax Paid out of the Federal Consolidated Fund

2.4: Horizontal Distribution

2.4.1 The percentage share of each province in the provincial share of the divisible pool taxes has been laid down in Clause (2) of Article 4 of President's Order. Provincial share against their percentages for entire Financial Year 2017-18 has been worked out as follows:

TABLE-V: Horizontal Distribution of Share For FY-2017-18

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
	(51.74%)	(24.55%)	(14.62%)	(9.09%)	**100%**
Divisible Pool Taxes	**1,072.160**	**508.727**	**302.957**	**188.364**	**2,072.208**
Income Tax	408.917	194.026	115.546	71.841	**790.330**
Capital Value Tax	1.353	0.642	0.382	0.238	**2.615**
Sales Tax (Excl.GST on Services)	426.485	202.362	120.511	74.928	**824.286**
Federal Excise (Excl. ED on NG)	60.382	28.651	17.062	10.608	**116.703**
Customs (Excl. Export Dev. Surcharge)	175.023	83.046	49.456	30.749	**338.274**

2.4.2 The table below presents the horizontal distribution of share for the 2nd half of FY 2017-18:

TABLE-VI: Horizontal Distribution of Share For 2nd Half of FY-2017-18 (Jan-June, 2018)

(Rs in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
	(51.74%)	(24.55%)	(14.62%)	(9.09%)	**100%**
Divisible Pool Taxes	**542.055**	**257.198**	**153.167**	**95.232**	**1,047.652**
Income Tax	207.186	98.307	58.543	36.400	**400.436**
Capital Value Tax	0.782	0.371	0.221	0.138	**1.512**
Sales Tax (Excl. GST on Services)	212.288	100.728	59.986	37.296	**410.298**
Federal Excise (Excl. ED on NG)	31.005	14.712	8.761	5.447	**59.925**
Customs (Excl. Export Dev. Surcharge)	90.794	43.080	25.656	15.951	**175.481**

2.4.3 Khyber Pakhtunkhwa has been paid an amount of Rs.339.359 billion during F.Y.2017-18. Out of this an amount of Rs.171.571 billion was paid during the period under report i.e. January-June, 2018. Detail of amounts released to Khyber Pakhtunkhwa is shown as under:

TABLE-VII: Releases To Khyber Pakhtunkhwa on Account of WoT

(Rs in billion)

Particulars	FY 2017-18 (Total)	2nd Half of FY 2017-18
Share in the Divisible Pool (14.62%)	302.957	153.167
1% War on Terror	36.402	18.404
Total:-	339.359	171.571

2.4.4 Similarly, Clause (3) of Article 4 of the President's Order also guarantees that Balochistan province shall receive the projected sum of the provincial share in the net proceeds of divisible pool taxes and any shortfall shall be made up by the Federal Government from its own resources. It may be added that the above releases of the entire financial year 2017-18 stands reconciled with the Provincial Finance Departments.

STRAIGHT TRANSFERS/GRANTS-IN-AID

3.1: Distribution of Royalty on Crude Oil

3.1.1 Article 5 of the President's Order 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 and reports 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 as shown below:

TABLE-VIII: Royalty on Crude Oil

Rs in billion

Period	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
(FY-2017-18) Full year	3.387	6.222	12.236	0.013	21.858
2nd half (FY-2017-18) (Jan. – June,2018)	2.171	4.191	8.628	0.004	14.994

3.2: Distribution of GDS and Royalty on Natural Gas

3.2.1 Article 6 of the President's Order 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 as presented in the following table:

TABLE-IX: Total Distribution of Royalty on Natural Gas and GDS For FY.2017-18

Rs in billion

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	1.537	24.074	7.764	4.878	38.253
Gas Dev. Surcharge	1.240	16.458	2.261	3.780	23.739

TABLE-X: Amount of Royalty on Natural Gas and GDS in 2nd Half of FY.2017-18 (Jan-June, 2018)

Rs in billion

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.998	15.454	5.492	1.635	23.579
Gas Dev. Surcharge	0.051	4.576	0.106	1.282	6.015

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 as follows:

Table-XI: Excise Duty on Gas

Rs in billion

Period	Punjab	Sindh	Khyber Paktunkhwa	Balochistan	Total
FY-2017-18 (Full year)	0.436	6.790	1.858	1.538	10.622
2nd half (FY-2017-18) (Jan. – June,2018)	0.274	4.361	0.865	1.351	6.851

3.3.2 The figures reflected in the above tables 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 Zilla Tax. During the financial year 2017-18, the provincial share in the divisible pool was Rs.2,072.207 billion. Accordingly, the amount of said grant-in-aid comes to Rs.13.677 billion the same has been paid to the Government of Sindh during FY-2017-18. Out of total Grant-in-Aid, Rs.6.914 billion was paid to the Government of Sindh during the period under report.

GENERAL SALES TAX ON SERVICES

4.1 General Sales Tax on Services (GSTS)

4.1.1 Article 8 of the 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 Provincial Governments have established their own Revenue Agencies, and started collecting GST on Services at their own.

MISCELLANEOUS PROVISIONS OF THE AWARD

5.1: Miscellaneous

5.1.1 Article-9 of the Order relates to miscellaneous recommendations. In this regard, clause 9(1) provided for increase in the rate of excise duty on Natural Gas to Rs.10.0 per MMBTU. The recommendation stands already implemented through Finance Bill, 2010.

5.2: Streamlining Tax Collection

5.2.1 Article-9(2) provides for streamlining of tax collection to improve taxation and to maintain fiscal discipline by the Federal and Provincial Governments. In this regard, the NFC recommended that the Federal Government and Provincial Governments would streamline their tax collection systems to reduce leakages and increase revenues through efforts to improve taxation in order to achieve 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-XII: 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 As against the above recommended path, the tax receipts of Federal and Provincial Governments during F.Y.2017-18 are as follows:

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

(Rs. in billion)

	B.E. 2017-18	Tax Receipt upto June, 2018	(%) over B.E.
Federal	**4,330.463**	**4,065.781**	**94%**
of which FBR	*4,013.000*	*3,842.148*	*96%*
Provinces	**446.259**	**401.497**	**90%**
Punjab	230.986	197.616	86%
Sindh	185.621	176.107	95%
Khyber Pakhtunkhwa	22.307	18.326	82%
Balochistan	7.346	9.430	128%

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

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

Federal Government

a. FBR has collected Rs.2120.5 billion during January-June, 2017-18 showing a growth of 11.9%, over the corresponding period of last financial year. A tax-wise detail of the tax collection is given below:-

Table-XIV: Provisional Tax Collection (January-June, 2017-18)

(Rs. In billion)

Fiscal Year	2017-18	2016-17	Growth (%)
Direct Taxes	873.1	752.7	16.0
Sales Tax	804.8	751.5	7.1
FED	115.8	112.5	2.9
Customs	326.8	278.8	17.2
Total	**2120.5**	**1895.5**	11.9

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

- 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:-

    - Narrow tax base;
    - Agriculture, large number of services are out of net;
    - Excessive exemptions and concessions;
    - Large undocumented informal sector;
    - Weak Audit and enforcement;
    - Low Compliance;
    - 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:-

- Moving towards a simple, transparent and accountable tax system -that protects taxpayers' rights.
- Higher revenue growth through improved compliance;
- Improved FBR's tax to GDP ratio (11.2% to 15%);
- Facilitation of genuine taxpayers with the enhanced use of Information and Communication Technology;
- Deployment of technology to identify risk areas to support risk based audit.
- Simplification of tax provisions;
- Reducing Tax Gap;
- Enhancement of enforcement efforts;
- Further withdrawing concessions/SROs;
- Bringing behavioral change through promotion of tax compliant 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:-

(i) **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.

(ii) **Rationalization of Import Tariff and Corporate Tax Rates:**

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

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

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

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

(vii) **Queue Management System** (in sales tax refunds)

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

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

(x) **Automation of IT Exemption Certification**

(xi) **Whistleblowers** (drive to detect tax evasion)

(xii) **New Anti-Smuggling Strategy Introduced.**

(xiii) **Establishment of Transfer Pricing Unit**

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

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

(xvi) **Human Resource Management.**

a. Development of Job Description and Key Performance indicators
b. Mandatory Training of Officers

(xvii) **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.

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

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

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

(xxi) **Enhancement of Digital/E-Library from different sources.**

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

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

(xxiv) **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

- The Provincial Government has taken the following reform/initiative with estimated additional revenues to the tune of Rs.1053.50 million to be generated during the period of report:-
  (i) Amendment in Khyber Pakhtunkhwa Finance Act 2018.
  (ii) Revision in the rates of various documents in Revenue and Estate Department.
- The budget estimate of tax receipt from January to June 2018 (FY 2017-18) was Rs.11663.45 million. An amount of Rs.8852.05 million was realized showing a percentage of recovery of 75.89%.

Government of Balochistan

1. Government of Balochistan in the Finance Act, 2019 revised and enhanced various taxes as part of its strive to expand its revenue base.

2. Initiatives taken to bring Board of Revenue and Excise and Taxation Department under automation system.

3. Tax Policy and Reforms Unit has been set up aimed at assisting revenue generating departments to review its existing tax collection mechanism and suggesting reforms, tax policy formulation, implementation and monitoring.

4. Similarly, Debt Management Unit has been set up to assess debt's risks, coordinate with P&D Department in financial negotiations, operate debt management information system and present debt bulletin with international standards.

5. Balochistan Revenue Authority (BRA) is being strengthened.

6. Infrastructure Development Cess Act has been passed and collection has been started in the province.

7. Public Private Partnership (PPP) Act has been passed by GoB and a PPP unit has been set up in P&D Department aimed to provide job opportunities and strengthen revenue base.

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 6.6% of GDP in FY 2017-18. The present government is taking following steps to reduce the fiscal deficit at the level of 4.9% of GDP in current financial year 2018-19. In order to achieve the deficit target following steps were taken in this regards:-

a. Restricted current and development expenditure 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;

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; and

f. As per new procedure, cases of Supplementary Grants/Technical Supplementary Grant fall in the competence of Federal Cabinet.

Government of Punjab

i. Apart from the fiscal discipline measures taken by the Government of the Punjab and highlighted in the 1st Bi-annual Report for Financial year 2017-18. The following has also been executed in the 2nd half of the Financial Year 2017-18:-

- In order to enhance the outreach and to tap the potential of Sales Tax on Services, Punjab Government has also established its sub-offices at Sargodha, Sahiwal and Bahawalpur.

Government of Sindh

Cash Monitoring: 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.

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

v. 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.

vi. 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. PEFA Assessment (Public Expenditure and Financial Accountability Assessment) has been completed and published.

ii. Public Financial Management Reforms Strategy has been developed and approved by the Provincial Cabinet.

iii. Efforts are in progress for payroll and pension verification through biometric system.

iv. Delegation of Financial Powers and Public Procurement Regularity Authority (PPRA) rules have been reviewed and updated in the context of improving efficiency and ensuring fiscal discipline in the province.

Annex-I

REGISTERED No. M - 302 / L.-7646

The Gazette of Pakistan

EXTRAORDINARY
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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 per cent 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 per cent shall be assigned to provinces during the financial year 2010-11 and fifty-seven and half per cent from the financial year 2011-12 onwards. The share of the Federal Government in the net proceeds of divisible pool shall be forty-four per cent during the financial year 2010-11 and forty-two and half per cent 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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<u>Annex-II</u>

Provincial Tax Receipts - 2017-18 (June Final)

Rs in million

Function Code	DESCRIPTION	Punjab		Sindh		Khyber P' Khwa		Balochistan	
		B.E.	Actual	B.E.	Actual	B.E.	Actual	B.E.	Actual
B	Tax Revenue	230,986	197,616	185,621	176,107	22,307	18,326	7,346	9,430
B01	**Direct Taxes**	**42,979**	**17,848**	**12,875**	**6,839**	**3,069**	**3,747**	**679**	**664**
B' 011	Tax On Income	1,530	928	1,000	565	88	67	13	22
B' 013	Property Tax	13,301	2,278	6,300	2,016	369	1,146	190	122
B' 014	Land Revenue	14,589	12,097	650	287	2,012	1,337	319	286
B' 015	Workers Welfare Tax	-	-	-	-	-	-	-	-
B' 016	Tax on Profession, Trades and Callings	927	729	425	380	300	301	3	4
B' 017	Capital Value Tax on Immoveable Property	12,632	463	4,500	3,590	300	392	150	90
B018&19	C.V.T(Moveable property)	-	1,353	-	2	-	503	4	140
B02	**Indirect Taxes**	**178,196**	**175,680**	**123,050**	**121,121**	**16,595**	**13,828**	**6,580**	**8,753**
B' 023	Sales Tax on Svc GST	127,000	105,989	100,000	99,881	13,653	10,919	4,700	7,170
B' 026	Provincial Excise	4,135	3,473	5,000	4,632	42	23	499	425
B' 027	Stamps Duties	31,824	51,689	10,500	9,424	900	1,232	412	404
B' 028	Motor Vehicles	15,238	14,529	7,550	7,184	2,000	1,654	970	755
B' 029	Sale of Opium	-	0	-	-	-	-	-	0
B03	Indirect Taxes-Others	9,811	4,088	49,696	48,146	2,643	752	86	13
B030	Indirect Taxes-Others	9,811	4,088	49,696	48,146	2,643	752	86	13

PCPPI—4003(19)Fin. Div.—28-05-2019—1,700.

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