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

(January – June, 2022)

GOVERNMENT OF PAKISTAN
NATIONAL FINANCE COMMISSION SECRETARIAT

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 recommendation of the National Finance Commission (NFC).

2. The 7^{th} NFC Award was signed on 30^{th} December, 2009 and its recommendations were given legal cover with effect from 1^{st} 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:

> *"The Federal Finance Minister and Provincial Finance Ministers shall monitor the implementation of the Award biannually and lay their reports 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 Biannual monitoring report for the period from January to June, 2022 was approved by the Federal and Provincial Finance Ministers for laying before both Houses of the Parliament and Provincial Assemblies.

6. The Biannual Report contains total FBR collections reported during January – June, 2022, details of Divisible/Non Divisible Pool Components, Vertical Distribution of shares between Federal and Provincial Governments, Horizontal Distribution of shares among the Provinces and detail of Grant-in-Aid as well as Straight Transfers to the Provinces.

7. The report also includes detail of efforts by Federal and Provincial Governments to streamline their tax collection systems to reduce leakages and increase their revenues as well as efforts for maintaining fiscal discipline at Federal and Provincial level during the reported period.

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Islamabad, the 9^{th} August, 2024

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This 2nd Biannual Monitoring Report on implementation of 7th NFC award covers the period from January to June, 2022 of Financial Year 2021-22. Total tax collection as reported by FBR remained Rs.3,263.673 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.3,133.019 billion. The Provincial share comes to Rs.1,801.486 billion, leaving a balance of Rs.1,331.533 billion for the Federal Government. The Provincial share has been distributed as: Rs.932.089 billion to Punjab (51.74%), Rs.442.265 billion to Sindh (24.55%), Rs.263.377 billion to Khyber Pakhtunkhwa (14.62%) and Rs.163.755 billion to Balochistan (9.09%). Khyber Pakhtunkhwa received Rs.31.647 billion on account of War on Terror, whereas, Balochistan received Rs.14.261 billion to meet the shortfall in its budgeted share for FY 2021-22.

During the period January – June 2022, Rs.19.588 billion, Rs.11.134 billion and Rs.22.823 billion were collected on account of Royalty on Crude Oil, Gas Development Surcharge (GDS) and Royalty on Natural Gas, respectively which were transferred to the Provinces. Similarly, an amount of Rs.6.228 billion has been transferred to Provinces on account of Excise Duty on Natural Gas during the reported 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. Accordingly, an amount of Rs.11.889 billion was released to Government of Sindh on this account.

INTRODUCTION

1.1. The NFC Award 2009 has been in operation 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 before both Houses of the Parliament and the Provincial Assemblies.

1.3. The implementation status of the above provisions of the President's Order, i.e., Distribution of Revenues and Grants-in-Aid Order, 2010, is given in the following chapters.

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's Tax Receipts

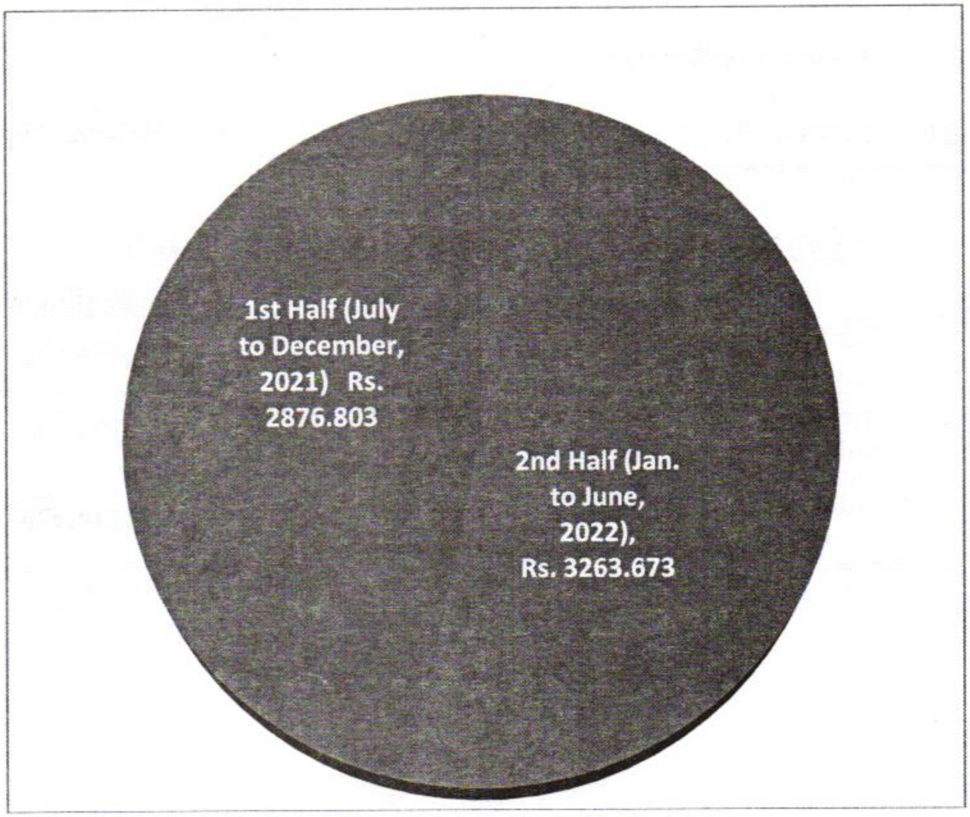
2.1.1. Federal Board of Revenue (FBR) reported the following tax collection for Financial Year 2021-22:

TABLE-I: Total FBR's collection during FY 2021-22

(Rs. in billion)

A	Provisional collection reported on fortnightly basis during FY 2021-22	6,035.571
B	Arrears worked out on receipt of final reconciled collection for FY 2020-21 reported in FY 2021-22	104.905
C	**Total collection reported during FY 2021-22 (A+B)**	**6,140.476**

2.1.2. The releases to the Provinces during the Financial Year 2021-22 were made on the basis of FBR collection amounting to Rs.6,140.476 billion. Out of this collection, Rs.2,876.803 billion was reported during first half (July to December, 2021) and Rs.3,263.673 billion was reported during second half (January to June, 2022) of the Financial Year 2021-22. The following chart shows a snapshot of collection during the two halves of the FY 2021-22;



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 No. 5 of 2010. Total receipts of FBR also include some non-divisible components. Therefore, after deducting such components, the gross divisible pool taxes for FY 2021-22 were worked out as Rs.6,073.874 billion against total tax receipts of Rs.6,140.476 billion. Gross divisible pool taxes for 2nd half of F.Y.2021-22 (January–June, 2022) come to Rs.3,209.287 billion. A detailed breakup of non-divisible pool components is given below:

TABLE-II: Details of Non-Divisible Pool Components

(Rs. in billion)

	FY 2021-22	2nd half 2021-22
Total Collection FBR Receipts	**6,140.476**	**3,263.673**
Less Non-Divisible Pool Components	**66.602**	**54.386**
WWF	22.989	19.470
GST on Services	22.121	20.786
Excise Duty on Natural Gas	9.383	6.354
Exp. Development Surcharge	12.109	7.776
Gross Divisible Pool Tax	**6,073.874**	**3,209.287**

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 2021-22 and 2nd half of Financial Year -2021-22 (Jan-June, 2022) are as follows:

TABLE-III: Vertical Distribution of Divisible Pool Taxes For FY 2021-22

(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	**6,073.874**	**83.158**	**5,990.716**	**59.907**	**5,930.809**	**3,410.215**
Income Tax	2,241.915	44.838	2,197.077	21.971	2,175.106	1,250.686
Capital Value Tax	0.393	0.004	0.389	0.004	0.385	0.221
Sales Tax (Excl.GST on Services)	2,554.653	25.547	2,529.106	25.291	2,503.815	1,439.694
Federal Excise (Excl. ED on NG)	306.104	3.061	303.043	3.030	300.013	172.507
Customs (Excl. Export Dev. Surcharge)	970.809	9.708	961.101	9.611	951.490	547.107

☆ Includes deduction of 1% from Income Tax on account of taxes on income consisting of remuneration paid out of the Federal Consolidated Fund, not being part of the divisible pool taxes.

TABLE-IV: Vertical Distribution of Divisible Pool Taxes For 2nd Half Of FY 2021-22 (January – June, 2022)

(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	**3,209.287**	☆ **44.622**	**3,164.665**	**31.647**	**3,133.019**	**1,801.486**
Income Tax	1,252.874	25.057	1,227.817	12.278	1,215.538	698.935
Capital Value Tax	0.264	0.003	0.261	0.003	0.259	0.149
Sales Tax (Excl.GST on Services)	1,288.467	12.885	1,275.582	12.756	1,262.827	726.125
Federal Excise (Excl. ED on NG)	164.734	1.647	163.087	1.631	161.456	92.837
Customs (Excl. Export Dev. Surcharge)	502.948	5.029	497.919	4.979	492.939	283.440

☆ Includes deduction from Income Tax on account of taxes on income 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 shares against their percentages for entire Financial Year 2021-22 have been worked out as follows:

TABLE-V: Horizontal Distribution of Divisible Pool Taxes For FY 2021-22

(Rs. in billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	**Total**
	(51.74%)	(24.55%)	(14.62%)	(9.09%)	**100%**
Divisible Pool Taxes	**1,764.445**	**837.208**	**498.573**	**309.989**	**3,410.215**
Income Tax	647.105	307.043	182.850	113.687	1,250.686
Capital Value Tax	0.114	0.054	0.032	0.020	0.221
Sales Tax (Excl.GST on Services)	744.898	353.445	210.483	130.868	1,439.694
Federal Excise (Excl. ED on NG)	89.255	42.350	25.221	15.681	172.507
Customs (Excl. EDS)	283.073	134.315	79.987	49.732	547.107

2.4.2. The table below presents the horizontal distribution of share for the 2nd half of FY 2021-22:

TABLE-VI: Horizontal Distribution of Divisible Pool Taxes For 2nd Half Of FY 2021-22 (January - June, 2022)

(Rs. in billion)

	Punjab	**Sindh**	**Khyber Pakhtunkhwa**	**Balochistan**	**Total**
	(51.74%)	(24.55%)	(14.62%)	(9.09%)	**100%**
Divisible Pool Taxes	**932.089**	**442.265**	**263.377**	**163.755**	**1,801.486**
Income Tax	361.629	171.588	102.184	63.533	**698.935**
Capital Value Tax	0.077	0.036	0.022	0.013	**0.148**
Sales Tax (Excl.GST on Services)	375.697	178.264	106.160	66.005	**726.125**
Federal Excise (Excl. ED on NG)	48.034	22.791	13.573	8.439	**92.837**
Customs (Excl. EDS)	146.652	69.585	41.439	25.765	**283.440**

2.4.3. Khyber Pakhtunkhwa has been paid an amount of Rs.558.480 billion during F.Y.2021-22. Out of this, an amount of Rs. 295.024 billion was paid during the period under report *i.e* January–June, 2022. 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 2021-22	2nd Half of FY 2021-22
Share in the Divisible Pool (14.62%)	498.573	263.377
1% for War on Terror	59.907	31.647
Total:-	**558.480**	**295.024**

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 be made up by the Federal Government from its own resources. The position of additional transfers out of the Federal resources is depicted as follows:

TABLE-VIII: Releases of Balochistan's protected share

(Rs. in billion)

Particulars	FY 2021-22	2nd Half of FY 2021-22
Projected Share in the Divisible Pool (9.09%)	309.989	163.755
Protected Share paid up to 30th June, 2022	295.728	149.494
Share payable	14.261	14.261
Balance amount paid in FY. 2022-23	14.261	14.261

Since the FBR's collection exceeded the budget estimates, during FY-2021-22 therefore, the actual share of Balochistan also surpassed its budgeted share by an amount of Rs.14.261 billion up-to 30th June 2022. The said amount has been paid to the Government of Balochistan during Financial Year 2022-23 & 2023-24 in addition to its normal share.

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. Petroleum Division is responsible for collection of this levy and reports to Finance Division fortnightly for onward transfer to Provinces. Accordingly, the entire net proceeds reported by Petroleum Division were distributed amongst the Provinces as shown below:

TABLE-IX: Royalty on Crude Oil

(Rs. in billion)

Period	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
FY 2021-22 Full Year	5.605	12.409	20.901	0.375	**39.290**
2nd Half FY 2021-22 (Jan-Jun, 2022)	2.806	4.968	11.622	0.192	**19.588**

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. Petroleum Division is the collecting agency for these two levies. The proceeds collected are reported to Finance Division on monthly basis for onward transfer to Provinces. Accordingly, the entire net proceeds of Royalty and Development Surcharge on Gas reported by Petroleum Division were distributed amongst the Provinces as presented in the following table:

TABLE-X: Distribution of Royalty on Natural Gas and GDS for FY 2021-22

(Rs. in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	1.546	32.543	6.933	6.422	**47.443**
Gas Development Surcharge	0.826	14.378	2.668	1.642	**19.514**

TABLE-XI: Amount of Royalty on Natural Gas and GDS in 2nd Half of FY 2021-22 (January - June, 2022)

(Rs. in billion)

Item	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Natural Gas	0.772	17.404	3.869	0.778	**22.823**
Gas Dev. Surcharge	0.336	8.644	1.736	0.418	**11.134**

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 on monthly basis for onward transfer to Provinces. Accordingly, net proceeds were distributed amongst the Provinces in accordance with said provision as follows:

TABLE-XII: Excise Duty on Gas

(Rs. in billion)

Period	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
FY:2021-22 Full Year	0.314	5.752	1.479	1.651	**9.196**
2nd Half FY:2021-22 (Jan-Jun, 2022)	0.210	3.898	1.004	1.116	**6.228**

3.3.2. The figures reflected in the above table represent actual transfers and have 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 2021-22, the provincial share in the divisible pool was Rs.3,410.215 billion. Accordingly, the amount of said grant-in-aid comes to Rs.22.507 billion; the same has been paid to the Government of Sindh during Financial Year 2021-22. Out of total Grant-in-Aid, Rs.11.889 billion was paid to the Government of Sindh during the period under report.

4.1. General Sales Tax on Services (GSTS)

4.1.1. As per 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 desired.

4.1.2. All Provincial Governments have established their own Revenue Agencies and have been collecting GST on Services by themselves. Details of the GST collected by the Provincial Revenue Authorities during the period under report are as under:-

Table-XIII: GST Collection by the Provinces

(Rs. in billion)

	B.E. 2021-22	Receipt upto June, 2022	% of B.E.
Provinces	**347.700**	**356.089**	**101.4%**
Punjab	150.900	165.461	**109.6%**
Sindh	150.000	145.799	**97.2%**
Khyber Pakhtunkhwa	24.800	27.476	**110.8%**
Balochistan	22.000	17.353	**78.9%**

MISCELLANEOUS PROVISIONS OF PRESIDENT'S ORDER

5.1. Increase in the Rate of Excise Duty on Natural Gas

5.1.1. Article-9(1) provides for increase in the rate of excise duty on Natural Gas to Rs.10.0 per MMBTU. The said 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 systems by the Federal and Provincial Governments to reduce leakages and increase revenues in order to achieve 15% tax to GDP ratio by the year 2014-15. It was also recommended that Provinces would initiate steps to effectively tax the Agriculture and Real Estate sectors. In this regard, steps taken by Federal and Provincial Governments are explained in the following paragraphs.

5.2.2. **Federal Government**

Major Initiatives Taken by FBR

In order to achieve broader economic and financial stability through sustainable economic growth by removal of distortions, broadening of tax base and documentation of economy, Finance (Supplementary) Act, 2022 was promulgated on 15^{th} January, 2022. Through the said Act, certain amendments were introduced in Sales Tax Act, 1990, Income Tax Ordinance, 2001 and Federal Excise Act, 2005.

I. Amendments in Income Tax Ordinance, 2001

i. Digital Mode of Payment

Through Tax Laws (Third Amendment) Ordinance, 2021 it has been made compulsory for corporate taxpayers to use digital mode of payment for certain expenditures. The Finance (Supplementary) Act, 2022, inclusively defines digital mode of payment as under:

a. Online portals or platforms for digital payments/ receipts

b. Online interbank fund transfer services

c. Online bill or invoice presentment and payment services

d. Over the counter digital payment services or facilities

e. Card payments using Point of Sale terminals, QR codes, mobile- devices, ATMs or Kiosk

f. Any other digital or online payment modes

Furthermore, Board has also been empowered to notify the date for adoption of digital modes of payment.

ii. **Provision of Information by the Banks**

Through this legislation, the scope of information shared by the banks under Section 165A of the Ordinance has been enhanced. Banks are now liable to furnish information regarding newly opened or re-designated business bank accounts during each preceding calendar month.

iii. **Enhancement of Advance Tax on Cellular Services**

Rate of advance tax on cellular services under Section 236 of the Ordinance has been increased from 10% to 15%.

iv. **Advance Tax on Foreign TV Serials and Advertisements**

In order to encourage domestic media industry, advance tax on foreign produced TV drama serials or plays dubbed in Urdu or any other language shown on local television channels has been introduced through insertion of Section 236CA in the Ordinance. Additionally, advance tax shall also be applicable on advertisements starring foreign actors. Tax collected under this section shall be minimum tax. Rates have been introduced through Division XA of Part IV of First Schedule to the Ordinance as follows:

Category	Rate of Tax
Foreign-produced TV drama serial or play	Rs. 1,000,000 per episode
Foreign-produced TV play (single episode)	Rs. 3,000,000
Advertisement starring foreign actor	Rs. 500,000 per second

v. **Enhancement of Advance Tax on Vehicle Registration**

Advance tax on vehicle registration under Section 231B (2A) of the Ordinance has been increased for the persons who register such motor vehicles which have been sold prior to their first registration. The purpose is to discourage huge "on money" on such vehicles which are booked by investors as a result of which the vehicles remain unavailable to the genuine buyers new rates under Division VII of Part IV of First Schedule to the Ordinance are as below:

Engine capacity	Tax
Up to 1000cc	Rs. 100,000
1001cc to 2000cc	Rs. 200,000
2001cc and above	Rs. 400,000

vi. **Taxation of Special Purpose Vehicle under REIT**

The concept of Special Purpose Vehicle (SPV) under the Real Estate Investment Trust (REIT) has been introduced by SECP through legislation. Through the Finance (Supplementary) Act, 2022, SPV being a pass-through entity, has been extended the same tax treatment as already given to REIT under the Ordinance. Dividend received by REIT from SPV shall be chargeable to tax at the rate of 0% while dividend paid to non-REIT investors shall be chargeable at the rate of 35%. These will be subject to advance tax deduction at the same rates. Furthermore, SPV has been included in the exemptions granted to REIT under clause (99) and (99A) of Part 1 and clause (47B) of Part IV of Second Schedule to the Ordinance.

vii. **Explanation regarding Minimum Tax**

Explanation has been added to sections 153.233 and 236Q of the Ordinance to clarify that tax deducted under these provisions shall be minimum tax in respect of any income derived by taxpayers which is subject to deduction of tax under these sections.

viii. **Disclosure of Information in Respect of Public Officials**

The legislation seeks to allow disclosure of information u/s 216 of the Ordinance in respect of any high-level public officials and public servants in BPS-17 and above, their spouses, children or benamidars, or any person in relation to whom the afore-mentioned persons are beneficial owner.

ix. **Restriction of Exemption to Power Generation Projects**

Under clause (132) of Part 1 of the Second Schedule to the Ordinance, exemption from tax on profit and gains is available to a taxpayer who sets up an electric power generation project in Pakistan subject to conditions therein. The sixth proviso to the clause has been substituted with a new proviso to qualify that the exemption shall be available to persons, who enter into agreement or to whom letter of intent is issued by the Federal or Provincial Government for setting up an electric power generation project in Pakistan on or before the 30^{th} day of June, 2021 and who obtain the letter of support on or before the 30^{th} day of June, 2023.

The above provisions go into force with effect from January 16, 2022.

II. Amendments in Sales Tax Act, 1990

i. **Streamlining of 5^{th} Schedule**

Zero-rating under 5^{th} Schedule to the Sales Tax Act, 1990 has been rationalized and some of the entries have been omitted. For example, zero-rating on local supply of plant and machinery to Export Processing Zones (EPZ), duty free shops, local supplies to exports covered under Export Facilitation Scheme, and supply/repair/maintenance of ships and related equipment and machinery has been withdrawn.

On the other hand, zero-rated regime at import stage is introduced for drugs registered under the Drugs Act, 1976. Pharmaceutical goods and their raw materials were earlier exempt from Sales Tax; as a result, most of the supply chain was undocumented. This had led to misuse of this facility and revenue leakages. Moreover, the sector had absorbed tax paid on various inputs including packaging material and utilities. These input taxes became part of cost and were passed on to patients. In order to address these issues, pharmaceutical products are made zero rated and any tax paid on their inputs are made refundable. This measure will bring transparency to the sector and help FBR in documenting the entire supply chain. It will also help the government in controlling and reducing the price of pharmaceutical goods. In order to process the refund claims of this sector, a refund module on the pattern of FASTER is devised. Zero-rating to crude oil, which was withdrawn through Finance Act, 2021 has also been resorted.

ii. **Streamlining of 6th Schedule**

For the purpose of tax rationalization and broadening of tax base, while retaining exemptions on essential food items, basic healthcare and education, a number of exemptions from Table-1 of the Sixth Schedule to the Sales Tax Act, 1990 have been withdrawn. The goods on which GST at standard rate has been imposed can be broadly categorized as imported/branded food items or plant and machinery and industrial inputs. Imported live animals/poultry, imported meat/uncooked poultry, imported eggs, imported seeds and various types of agriculture equipment, plant and machinery of green field industries are some of the items which are now brought in to the standard regime. Through new insertion in Table-2 of the Sixth Schedule, local supply of food items like cereals, meat, poultry, vegetable, fruits, eggs etc. has been exempted from the levy of sales tax. Similarly, supplies of locally manufactured laptops and newspapers are also exempted. Exemption on local supply of sugar cane has also been provided. On the other hand, some of the existing exemptions available in Table-2 have been withdrawn on raw cotton, whey and sausages (sold other than retail packaging), match boxes among others. Furthermore, before Finance (Supplementary) Act, 2022, bread, sheer-mal, vermicillies, bun, and rusk sold at all bakeries and sweet shops were exempt by virtue of S. No. 7 of the Table *ibid.* However, the said provision has now been amended, whereby tax at standard rate has become chargeable on these items when they are sold in bakeries, restaurants, food chains and on sweet shops falling under the category of tier-1 Retailers.

Exemptions to Various plants, machinery and equipment, often involving huge expenditure, are available under Table-3 of the Sixth Schedule. Some of these exemptions have been withdrawn.

iii. **Streamlining of 8th Schedule**

Eighth Schedule to the Sales Tax Act, 1990, provides rates lower than standard rate of GST and before Finance (Supplementary) Act, 2022 a wide array of rates ranging from 1% to 16.9% were available under the said Schedule. This caused distortion in the tax system. The differential rates were difficult to administer and open to misuse. Eighth Schedule has now been streamlined and a number of reduced rates and concessionary regimes have been withdrawn bringing these goods under standard regime.

iv. **Rationalizing 9th Schedule**

The rates of Sales Tax on cellular/ mobile devices are specified under the provisions of Table-2 of Ninth Schedule to the Sales Tax Act, 1990. The rates of high-end mobile devices (exceeding 200 US$) imported in CBU condition were chargeable to fixed sales tax ranging from Rs. 1,740 to Rs. 9,270 per device. There was little justification for reduced rate on import of expensive/high-end branded mobile devices. Therefore, tax @ 17% and valorem has been introduced for imported mobile devices valuing more than US$ 200.

v. **Other Important Amendments**

a. For the purposes of documentation, competitiveness and fair tax regime for all the earlier threshold for cottage industry of rupees ten million has been reduced to eight million annual turnover from all supplies.

b. Exemption has been retained for imported fruits and vegetables from Afghanistan.

c. Person whose deductible tax under section 236G/236H of the Income Tax Ordinance 2001 has exceeded a threshold as may be specified by the Board has also been included in a definition of a Tier-1 retailer.

d. Board has been empowered to include/exclude any item from the Third Schedule.

e. A new Directorate General for Digital Invoicing and Analysis has been provided in the Act.

f. Through amendment in section 33, sealing of the business premises has been provided in case of violation of section 9A of section 3 and section 40c or in case of non-integration with the computerized system of the Board.

g. Sugar has been excluded from the purview of Third Schedule with effect from 1st December, 2021.

h. In order to facilitate general consumers, the condition of CNIC has been withdrawn in case of payment made through debit/ credit card or digital mode.

i. Under S. No. 61, 62 and 63 of Table-I of the Eighth Schedule, reduced rate of sales tax on silver, gold and precious metals jewelry has been withdrawn being luxury items which will not affect the common man.

j. Under S. No. 66 Table-I of the Eighth Schedule, the rate of sales tax has been enhanced from 10% to 12%.

k. Reduced rate of sales tax has been retained in respect of locally manufactured hybrid electric vehicles.

l. Personal computers and laptops have been made chargeable to tax @ 5% if imported in CBU condition.

m. Rate of sales tax on imported EV in CBU condition has been enhanced from 5% to 12.5%.

vi. Likewise, services liable to tax under ICT (Tax on Services) Ordinance, 2001, are specified in the Schedule to the Ordinance ibid, along with the applicable rates. However, there were a number of notifications in the field wherein, subject to certain condition, reduced rates were provided in respect of some services. In order to streamline and consolidate the taxable services and their chargeable rates under ICT (Tax on Services) Ordnance, 2001, the existing Schedule was substituted as Table-I and a second table was inserted incorporating the rates earlier notified through SROs at different timings.

III. Amendments in Federal Excise Act, 2005

Through S. No. 55, 55B, 55C and 55D of Table-I of the first Schedule to the Federal Excise Act, 2005, the rates of FED on imported, locally manufactured motorcars/ SUVs, imported and locally manufactured double cabin are provided respectively. In order to rationalize the existing rates of FED on Vehicles, the following increase in the various slabs has been made:

S.No.	Description of Goods	Previous rate of FED	Current rate of FED
55	Imported motor cars, SUVs and other motor vehicles:		
	a) of cylinder capacity up to 1000cc	2.5% ad val.	No change
	b) of cylinder capacity from 1001cc to 1799cc	5% ad val.	10% ad val.
	c) of cylinder capacity 1800cc to 3000cc		
	d) of cylinder capacity exceeding 3001cc	25% ad val.	30% ad val.
		30% ad val.	40% ad val.
55B	Locally manufactured or assembled motor cars, SUVs:		
	a) of cylinder capacity up to 1300cc	(i)upto 1000cc-0% (ii)1001cc to 2000cc-2.5%	2.5%
	b) of cylinder capacity from 1301cc to 2000cc	2.5% ad val.	5% ad val.
	c) of cylinder capacity 2001cc and above	5% ad val.	10% ad val.
55C	Imported double cabin (4X4) pick-up vehicles	25% ad val.	30% ad val.
	Locally manufactured double cabin (4x4) pick-up vehicles except the vehicles booked on or before the 30th June, 2020 subject to the restriction or conditions specified by the Board.	7.5% ad val.	10% ad val.

The aforementioned changes in law and tax/ FED rates are applicable with effect from January 16, 2022.

5.2.3 Provincial Governments

Government of the Punjab

Government of Punjab has taken following steps for streamlining the Tax Collection for effective implementation of NFC Award during the period of report:

i. Government of the Punjab withdrew the tax relief given to old vehicles while introducing discounted rate of motor vehicles tax for electric vehicles.

ii. Surcharge and penalty for property tax and motor vehicles tax have been rationalized.

iii. The matter of entertainment duty has been assigned to Punjab Revenue Authority (PRA) through an amendment in the Punjab Sale Tax on Services Act 2012.

iv. The rates of Sales Tax on Services for ten services sectors have been reduced. Further, penalty has been levied for persons who charge tax at a rate higher than the rate provided under the Act of 2012.

v. A reduced rate of 5% Sales Tax on restaurants has been introduced in case of payments through mobile wallets and QR scanning.

vi. In order to ensure ease of doing business, all goods already exempted from payment of duties and taxes for import by the Federal Government, have been exempted from Punjab Infrastructure Development Cess.

Government of Sindh

Following measures have been taken by various Revenue Collecting Agencies (RCAs) of Government of Sindh in order to streamline the tax collection and maintain fiscal discipline, as required under Article-9(2) and 9(3) of the President's Order 2010:

i. The system of Sindh Revenue Board (SRB) has been linked with Security & Exchange Commission of Pakistan (SECP) & Pakistan Revenue Automation Limited (PRAL) for data gathering, coordination and assistance. Further, efforts are being undertaken for introducing one window registration for Sindh-based companies incorporated by the SECP.

ii. Sindh Revenue Board is providing full support and cooperation to NTC in its endeavor to harmonize sales tax laws for the purpose of clarity, non-ambiguity, facilitation and Ease of Doing Business (EODB).

iii. The Audit Wing of SRB has been strengthened by recruiting professional Auditors on its payroll for conducting comprehensive and result oriented tax audits to combat tax evasion and augment revenues.

iv. Excise, Taxation & Narcotics Department has completed Geographic Information System (GIS) based survey for real time assessment of properties and collection of Property and Professional Taxes. Challans will be issued under new system.

v. A survey for Karachi has been planned under Competitive and Livable City of Karachi (CLICK) Project. The spade work has started and it will be completed in next three years.

vi. Excise, Taxation & Narcotics Department is in process to outsource the delivery function to Pakistan Post. The process of hiring services is under way.

vii. Information Technology (I.T) Directorate and I.T Policy have been developed by the Excise, Taxation & Narcotics Department. Further, work on establishment of facilitation center at Director General's Complex, at I.I. Chundrigar, Road Karachi is on-going.

viii. The project of Land Administration & Revenue Management Information System (LARMIS) was initiated by the Board of Revenue Sindh to digitalize land record, maps and registries along with overall scanning and archiving. GIS mapping has also been completed except a few missing maps.

ix. Board of Revenue Sindh has developed the system of E-Stamping in collaboration with Punjab Information Technology Board (PITB) which is operational since May, 2022. The collection of Stamp Duty is expected to enhance efficient service delivery at Banks' level.

Government of Khyber Pakhtunkhwa

Government of Khyber Pakhtunkhwa has taken certain initiatives/ measures to streamline tax collection during January to June, 2022 (FY 2021-22) (**Annex-II**).

Government of Balochistan

The measures taken by Government of Balochistan to streamline the tax collection and few constructive initiatives undertaken during the period of this biannual report are summarized below:

i. Balochistan Infrastructure Development Cess Act, 2019 was enacted with a purpose to levy infrastructure Cess on goods entering and leaving the province from or for outside the country through rail, road, air and sea for development and maintenance of infrastructure of the province. However, several cess payers (tax payers), aggrieved by certain provisions of the Act, ibid filed petitions against the ibid Act of 2019 in the Hon'ble Balochistan High Court. Accordingly, the Government of Balochistan took a holistic review of the Act with the purpose to bring the new law in a more refined shape. Consequently, a new bill under the title of "Balochistan Development and Management of Infrastructure Cess Act, 2021'' is legislated and notified for the purposes as stated therein.

ii. In order to increase the ratio of provincial own revenues, the Government of Balochistan has also undertaken certain initiatives which include but not limited to introduction of automation of certain potential provincial taxes streamlining their legal frameworks, tax enforcement and administrative restructuring etc.

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:

5.3.2. **Federal Government**

I. At Federal level, Public Finance Management Act, 2019 has been promulgated with a view to strengthen management of public finances to improve definition and implementation of fiscal policy for better macroeconomic management and clarify institutional responsibilities related to financial management, and strengthen budgetary management. Regarding fiscal discipline at federal and provincial levels, both the governments may work in close coordination to optimize revenue collection and rationalize their expenditure to attain the desired levels of fiscal performance. The provincial governments may work out strategy to accordingly reduce their budgetary outlay for having reasonable level of surplus by the end of financial year.

II. During 2nd half of FY 2021-22, the overall/ consolidated fiscal deficit has been standing at 5.7% of GDP due to Covid-19 as against 4.1% of GDP for the same period of last Financial Year 2020-21. The fiscal deficit increased due to two major factors, less non-revenue collections and higher subsidies to the energy sector. In addition, a few of the contributing factors that lead to a rise in fiscal deficit are beyond the control of the Federal Government. These factors include the sharp rise in interest rates, exchange rate depreciation and legal constraints on revenue. Also, there is need to create a balance between economic growth and fiscal deficit and all efforts are being put in place during the CFY to deal with this crisis. For restricting the fiscal deficit at 4.9% of GDP during CFY 2022-23, following steps are being taken by the Federal Government:

i. By better budget management, efficient cash management including TSA empowering Principal Accounting Officers with CF&AOs and Chief Internal Auditors, effective management of development projects and assets, transference reporting etc. the Federal Government has improved its financial management.

ii. No supplementary Grants/ additional resources have been allowed except some targeted subsidies related payments during Current Financial Year 2021-22. Supplementary Grants allowed in such cases with prior approval of the Federal Cabinet.

iii. No Expenditure, in any head of account, shall be incurred over & above the limit imposed by the Finance Division;

iv. Complete ban on purchase of all types of vehicles for current and development expenditure excluding motorcycles, student buses, ambulances and fire fighting vehicles;

v. Ban on creation of new posts except those required for development projects and approved by the competent authority;

vi. Entitlement of periodicals, magazines, newspapers etc of entitled officers is restricted to only one;

vii. Ban on treatment abroad at government expenses;

viii. Ban on official lunches/ dinners/ hi-tea except for foreign delegations;

ix. All Principal Accounting Officers have been asked to ensure rationalization of utility consumption, purchase of assets, repair and maintenance and all other operational expenditures shall be kept at bare minimum level while remaining within the budgetary allocation for the financial year;

x. All outstation meetings are restricted through internet link (Zoom etc) only, unless physical presence is strongly justified and approved by the competent authority.

5.3.3. **Provincial Governments**

<u>Government of the Punjab</u>

I. **Performance of Own Source Revenue (OSR):**

The Government of Punjab performed exceptionally well in achieving its targets through improved tax administration and compliance. Provincial tax receipts stood at Rs. 286.478 billion against a budgetary target of Rs. 272.566 at end June, 2022, showing an increase of 22 percent compared to the same period last year. Similarly, Rs. 143.214 billion was collected against a budgetary target of Rs. 132.042 billion as non-tax receipts during Financial Year 2021-22 showing an increase of 20 percent compared to FY 2020-21. The Government of Punjab surpassed its targets of OSR through better tax compliance, rationalization of levied taxes and broadening of tax base without imposing any major taxes.

II. **The Punjab Public Finance Management Act 2022**:

The Provincial Assembly of Punjab passed the Punjab Public Financial Management Act, 2022 which aims at regulating financial affairs in the public sector and matters relating to the Provincial Consolidated Fund and Public Account of the Punjab, in a comprehensive and sustainable manner contributing to long term social-economic stability and growth of the Province. The government shall cause the following measures to be taken under the Act:

i. Adequate comprehensiveness of the Budget

ii. Introducing of appropriate checks and balances in the Public Financial Management System

iii. Emphasis of medium-term planning and budgeting horizons, frameworks, strategies, and evaluations

iv. Regular reporting of financial statistics

v. Implementation of robust Fiscal Risk Management Framework

vi. Regular and reasonable spending on Public Investments

III. Policy Framework for improved Management of Fiscal Risks:

Identification of major fiscal risks is vital to formulation of polices to manage them. The Government of Punjab published Fiscal Risk Statement 2021-22 which highlighted key fiscal risks with the potential to adversely affect provinces' financial health. Some of these are; heavy reliance on FDP transfers, wide gap between budgeted and actual collection of OSR, burgeoning commodity financing debt, exponential growth in pension expenditure and natural disaster etc. It was in this backdrop that the Provincial Govt. has taken steps to increase its ORS by formulation of Revenue Mobilization Strategy which is under discussion with various stakeholders and introducing Pension reforms.

IV. **Austerity Measures**:

An Austerity Committee was constituted under the chairmanship of Minister Finance, Punjab. The Provincial Government continued to follow strict austerity measures to reduce expenditure on purchase of expensive goods like air-conditioners, generator and vehicles etc and their purchase was subject to clearance of the Austerity Committee.

V. **Ease of Paying Taxes**:

As part of resolve of the Govt. to ensure ease of doing business and facilitation of tax payers, more Departments/ taxes were enrolled in E-Pay, which is the first ever Government Payment aggregator in Pakistan for Public to Government (P2G) and Business to Government (B2G) payments. The platform has increased the digital transactions of Own Sources Revenue significantly and collected Rs. 93 billion from 18 million plus transactions upto June, 2022. A total of 11 departments and 25 taxes have been digitized with seamless and convenient online payment methods.

VI. **Reduction in Supplementary Grant**:

On the whole, Supplementary Grants were discouraged and to ensure fiscal discipline and prudent financial management, all Administrative Departments were required to remain within budgetary allocations. However, in case of extreme necessity, essential demands of additional resources were rationalized and were placed before the Provincial Cabinet for informed decision making.

Government of Sindh

I. **Cash Monitoring:**

The cash balance position of the Provincial Government with State Bank of Pakistan (SBP) is monitored on daily basis, and handled effectively through efficient financial management system.

II. **E-Pay Initiative**:

In order to bring reforms in conventional tax collection system, Government of Sindh intends to establish Single Collection Portal/ aggregator for collection of all provincial tax and non-tax revenues, which is under process.

Government of Khyber Pakhtunkhwa

I. While considering the Budget Estimates 2021-22, the Provincial Cabinet has approved certain guiding principles to curtail the recurring expenditure effective from 1st July 2021 (**Annex-III**):

II. To maintain financial discipline and in time availability of funds, the Government of Khyber Pakhtunkhwa upon approval of competent authority has devised a release policy for both current and development expenditure for the FY 2021-22 **(Annex-IV).**

Government of Balochistan

I. The existing governmental receipts collection system is manual, time consuming, inefficient and nontransparent. Therefore, to overcome the stated limitations, Finance

Department, with the approval of Government of Balochistan, has introduced e-Payment system under the title of "Alternate Delivery Channels System (ADCS)" which has been developed in collaboration with State Bank of (SBP) and 1-LINK (Pvt) Limited. This ADCS e-payment will ensure digital / electronic collection of all types of governmental receipts and will further bring huge efficiency gains by ensuring same day settlement, generating paperless e-scrolls for the designated central District Accounts Office and Computerized Payment Receipts (e-CPRs) for taxpayers. After successful implementation of ADCS e-Payment for GOB, the tax payers/ fee payers are now paying GoB's taxes, duties, fees and other levies through internet banking, mobile banking, 15,000 plus ATMs and Over-the–Counters (OTC) facility of around 16,000 branches of commercial banks across the country.

II. Earlier, Government of Balochistan enacted Balochistan Public Finance Management Act, 2020 through Balochistan Finance Act, 2020. To achieve objectives of further strengthening management of public finances, effective implementation of fiscal policy for better macroeconomic management, clarification of institutional responsibilities related to financial management, and to strengthen budgetary management, the Government of Balochistan introduced certain amendments in the enacted Balochistan Public Finance Management Act, 2020 through Balochistan Public Finance Management (Amendment Act, 2021).

The Gazette of Pakistan
EXTRAORDINARY
PUBLISHED BY AUTHORITY

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 clause (4) and (7) of Article 160 of the Constitution, the President is pleased to make the following Order:-

1. **Short title and commencement.-** (1) This Order may be called the Distribution of Revenues and Grants-in-Aid Order, 2010.

(2) It shall come into force on the first day of July, 2010.

2. **Definitions.**— In this Order, unless there is anything repugnant in the subject or context,—

(a) **"net proceeds"** means, in relation to any tax, duty or levy, the proceeds thereof reduced by the cost of collection, as ascertained and certified by the Auditor-General of Pakistan; and

(b) **"taxes on income"** includes corporation tax but does not include taxes on income consisting of remuneration paid out of the Federal Consolidated Fund.

3. **Distribution of Revenues.-** (1) The divisible pool taxes in each year shall consist of the following taxes levied and collected by the Federal Government in that year, namely:-

a. taxes on income;

b. wealth tax;

c. capital value tax;

d. taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed;

e. export duties on cotton;

f. customs-duties;

g. federal excise duties excluding the excise duty on gas charged at well-head; and

h. any other tax which may be levied by the Federal Government.

(2) One percent of the net proceeds of divisible pool taxes shall be assigned to Government of Khyber Pakhtunkhwa to meet the expenses on war on terror.

(3) After deducting the amount as prescribed in clause(2), of the balance amount of the net proceeds of divisible pool taxes, fifty-six percent shall be assigned to provinces during the financial year 2010-11 and fifty-seven and half percent from the financial year 2011-12 onwards. The share of the Federal Government in the net proceeds of divisible pool shall be forty-four percent during the financial year 2010-11 and forty-two and half percent from the financial year 2011-12 onwards.

4. **Allocation of shares to the Provincial Governments.-** (1) The Province-wise ratios given in clause(2) are based on multiple indicators. The indicators and their respective weights are agreed upon are:—

a)	Population:	82.0%
b)	Poverty/backwardness:	10.3%
c)	Revenue collection/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:-

The Punjab	51.74%
Sindh	24.55%
Khyber Pakhtunkhwa	14.62%
Balochistan	9.09%
Total:	100.00%

[1][(3) The Federal Government shall guarantee that Balochistan province shall receive the projected sum of eighty-three billon rupees from the provincial share in the net proceeds of divisible pool taxes in the first year of the Award and any shortfall in this

[1] Substituted vide "Distribution of Revenues & Grants-in-Aid (Amendment) Order, 2015 (President's Order No.6 of 2015)

amount shall be made up by the Federal Government from its own resources. This arrangement for Balochistan shall remain protected throughout the Award period 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 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 installments 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.

Measures taken by Govt. of KP to streamline tax collection system.

I. Government of Khyber Pakhtunkhwa has taken following initiatives/ measures to streamline tax collection during January to June, 2022 (FY 2021-22).

i. The Govt. of KP promoting overall healthy tax culture which ultimately broaden the tax base & resulted to increase revenue collection/ generation.

ii. Incredibly improved performance, removed anomalies in streamlining object/ head tax and non-tax head, including bifurcating complex head of accounts of CGA. New era of taxes was developed.

iii. Through digitalization process, all concerned departments system capability was glanced over by technical team to see its integration with 1 link in order to adopt Alternate Delivery Channel for collection of revenue/ taxes through that system.

iv. The reforms policy of the government to make organization functional as a major tax collecting agency was implemented in true spirit to streamline tax collection process etc.

v. Massive growth in tax collection of sectors like telecom, banking, construction, transport, withholding tax, development cess, real estate sector, ordinary collection/ urban immovable property, stamp duty/ mutation etc. are the basic sectors which are operated for the purpose of tax collection are improving gradually.

II. The provincial government is focusing to re-access taxes to improve growth. Several meetings were arranged for the purpose with concerned entities. Teams were deputed by department concerned in field in urban/ rural areas for achieving target of receipts with special directions.

III. To enhance revenue, proposals/ initiatives are under process for upcoming resource mobilization proposals.

IV. The Government of Khyber Pakhtunkhwa increased the target for Revenue Generating Departments for Financial Year 2021-22 to move towards the self-reliance of the Province. However, Government exempted several taxes (Capital Value Tax, Professional Tax, Land Tax, Local Council Tax 2% on transfer of immovable property and Registration Fee of 0.5% on Registration Deeds for public benefit). Motor Vehicle Registration Fee also reduced to minimum Rs.1 for all vehicles upto 2500CC. In addition, Admission Fees for both Government Primary & Secondary Schools for Girls & Boys, coupled with free admissions to Professional Government Art Colleges, Hostel Fee and Library Membership Fee stand waived off.

V. The Government of Khyber Pakhtunkhwa reduced rate of Sales Tax on Services to 1% for 10 categories/ sectors including Print Media, Industrial Workshops, Cinematographic Services, Property Dealers, etc. Further, rates of Sales Tax on Services also reduced for 17 categories/ sectors mainly Construction, Marriage Halls, Hotels & Restaurants etc. Total collection on account of Sales Tax on Services made by Khyber Pakhtunkhwa Revenue Authority (KPRA) during the period of report is Rs. 17,509.2 (M) which is 75% more than the realization of Rs. 9,980.3 (M) of 1st half of financial year 2021-22. During the whole financial year 2021-22, KPRA realized Rs. 27,489.4 (M) against the assigned target of Rs. 26,500.0 (M) which constitutes 3% over &above the assigned target despite of reduction in various taxes on certain categories/ sectors.

VI. The Budget target was fixed as Rs.75,000 (M) that revised to Rs.77,000 (M) for the Provincial revenue generating Tax & Non-Tax departments. An amount of Rs. 24,537.981 (M) is realized during 1st half of the financial year 2021-22 while during the period of report a sum of Rs. 39,230.545 (M) realized.

Annex-III

Economy/Austerity Measures

While considering the Budget Estimates 2021-22, the Provincial Cabinet of Khyber Pakhtunkhwa has approved the following guiding principles to curtail the recurring expenditure effective from 1st July 2021.

i. Salary budgeting has been done at actually filled positions, therefore, hiring against vacant positions shall be subject to budgetary ceiling fixed in the Integrated Budget Call Circular 2021-22.

ii. Creation of new posts shall be processed by Finance Department and shall be against the budgetary provisions upto the limit as mentioned in the lump sum amount at disposal of Administrative Departments.

iii. Hiring against vacant positions shall also be subject to budgetary ceilings at disposal of Administrative Department.

iv. Requests for new posts/ SNEs in respect of completed development projects shall be processed on submission of PC-IV and fulfillment of criteria circulated by Finance Department.

v. Purchase of vehicles shall be completely banned from both current and development side. However, a committee headed by Secretary Finance, Secretary Administration, Secretary P&D and Secretary of the concerned Department as members shall ascertain the need and accord approval to purchase of vehicles other than Ambulances, Earth moving machinery, Fire Trucks, Tractors, Single Cab Pickup 4x4 and 4x2, Trucks, Buses, Passenger vans, Prisoners vans, Motorcycles, Water Bowser Trucks, Recovery/ Rescue vehicles, Rescue/ Life Saving boats.

vi. There shall be a complete ban on:

   (i) Participation in workshops/ seminars and training abroad involving provincial funds.

   (ii) Holding Seminars and Workshops in Five Star Hotels involving Provincial funds.

   (iii) Treatment abroad on Provincial Government's expense.

vii. All Administrative Secretaries and Heads of Autonomous/Semi-Autonomous Bodies, being Principal Accounting Officers, shall conduct meetings of Departmental Accounts Committee regularly under intimation to Finance Department to ensure internal audit of their respective Departments /Organizations.

viii. To bring efficiency in revenue collections, "Provincial Revenues Review Committee" shall meet regularly under the chairmanship of Finance Minister to review the performance of all revenue collecting entities of the Provincial Government and to propose structural changes, performance indicators, legal reforms and other realignments in the procedures.

ix. All Administrative Secretaries shall conduct review meeting on progress on the targets against key performance indicators (KPIs) of their respective Departments quarterly under intimation to Finance Department.

x. Contingent paid staff shall be engaged during the course of the financial year 2021-22 only after approval of the Finance Department.

xi. No appointment shall be made against leave vacancies without prior approval of Finance Department.

xii. No appointment will be made against vacant posts (except appointment by promotion) without obtaining NOC from the concerned Surplus Pool.

xiii. Principal Accounting Officers will make sure that no appointment is made against a vacant post of dying cadre and will also initiate disciplinary action, if any such appointments have been made previously.

xiv. Expenditure shall be restricted to the funds released and the Administrative Departments shall not incur expenditure in anticipation of additional or supplementary grants.

xv. No developmental scheme involving creation of posts and purchase of vehicles, machinery & equipment and furniture

(Revenue Component), will be considered without prior clearance of Finance Department.

xvi. No department shall retain receipts in Bank Accounts. The Departments must remit all Receipts to Provincial Account forthwith except where Departments/ facilities have been specifically permitted under some Statute/ Act. All MTIs shall share the balances in Reserve Fund with Finance Department on quarterly basis along with the procurement plan. Release of subsequent quarters' budget shall be subject to submission of reserve funds balances and also submission of third-party financial audit report to Finance Department.

xvii. No funds will be utilized on account of annual and special repair of such Roads & Buildings (AOM&R) which have been repaired / rehabilitated during last three years except flood and earthquake affected Government infrastructure. To ensure the scope and standard of such works, Director General, Monitoring & Evaluation (M&E), shall inspect the sites periodically and provide a quarterly report to P&D & Finance Department. The concerned SDO shall submit a certificate to the effect that no funds have been utilized for repair & maintenance of the concerned road & building in the last three years.

xviii. The advertisement charges allocated under Current Revenue Expenditure shall be utilized on current side only. As regards expenditure on developmental side, necessary provision will be made in the PC-I(s)/ Costs Estimate(s) of the concerned scheme(s) whereas the devolved Departments' expenditure on this account shall be met out of Account-IV of the District concerned.

xix. All posts which are lying vacant for the last three (03) years shall preferably be abolished by Finance Department unless justified by the Administrative Department.

xx. Finance Department shall undertake next phase of the expenditure review to realize further savings as part of an integrated sectoral review process.

xxi. P&D Department shall initiate district and sectoral plans spread over the next three (03) years as part of the mid-term development frame work for the purpose of improved planning and eliminate wasteful expenditure.

xxii. All Autonomous/ Semi-Autonomous bodies, Medical Teaching Institutions, other Institutions and Authorities under Provincial Government shall adopt the measures within their respective organizations with the approval of their competent forums.

xxiii. Keeping in view the financial crunch on account of COVID-19, Finance Department shall carry out monthly Receipts and Expenditure reviews and adjust the release under various heads including development release accordingly.

xxiv. Principal Accounting Officers shall review the Departmental overall budgets and ensure judicious spending of various entities. Any intra departmental adjustments/ re-appropriations shall be preferably done at level of Principal Accounting Officers to bridge budgetary/ release gaps.

xxv. The Chief Minister may constitute a Cabinet Committee to review the fiscal situation and recommend measures to ensure availability of fiscal space for key service delivery sectors and flagship priorities of the Government.

xxvi. A Budget Management Committee to be chaired by Hon 'able Chief Minister, Khyber Pakhtunkhwa, comprising of Minister Finance, Additional Chief Secretary and Secretary Finance shall review budget utilization and the financial position of the province on a monthly basis.

Annex-IV

Release Policy of Govt. of Khyber Pakhtunkhwa FY 2021-22

I. Development Expenditure

TYPE OF SCHEMES	FUNDS RELEASE METHODOLOGY
1. Ongoing approved schemes	i) **100%** funds allocated to ongoing schemes of a sector will be released at the start of the financial year. However, in case of fiscal constraints or any cash balance issues, Finance Department reserves the right to make adjustments as and when required. ii) Out of the released funds, the Administrative Departments will ensure adequate releases to the on-going schemes due for completion and to the schemes pertaining to snow bound areas (either due for completion or not) through intra sectoral re-appropriations.
2. New approved schemes	**100%** funds allocated to new schemes of each sector will be released on production of administrative approval.

i. District wise complete breakup of the umbrella schemes shall be provided by the Department within one week after release of funds to enable Finance Department to punch it in SAP system.

ii. No release shall be made in the name of individuals with respect to Umbrella schemes.

iii. 100% release will be made for procurement of medicines and any other essential heads under schemes of Health Department on the request of the Department.

iv. Development funds to schemes having designated accounts will be released subject to production of utilization report and bank statement of their accounts.

v. Intra-Sectoral re-appropriation approved by Administrative Departments to development schemes shall be punched in SAP system by Administrative Departments themselves and not by the Finance Department.

vi. No re-appropriation shall be made against those schemes wherefrom funds are re-appropriated to other schemes, during current financial year.

vii. No re-appropriation shall be made from the "High Impact Priority Projects".

II. Current Expenditure

S#	OBJECTS	FUNDS TO BE RELEASED
1.	• Salary* *(except Honoraria which shall be released on case to case basis)*	100%
2.	• Electricity • Sui Gas Charges • Advertisement Charges (Current side only) • Financial Assistance to the families of Government servants who die while in service	100%
3.	Rest/Others	75%
4.	Purchase of Physical Assets	75%
5.	Maintenance & Repair **	75%
6.	Wheat Subsidy	Release on need basis.
7.	Medical Teaching Institutions (MTIs)	25% each quarter; However, 4th quarter release shall be subject to availability of financial resources.
8.	Funds at the disposal of Finance Department	Release on case to case basis through re-appropriation as per Guidelines contained in Finance Department's circular letter No. BO. I/FD/5-17/2014 - 15 dated 12/06/2015
9.	S.N.E (Fresh)	Authentication of Audit Copy by the Finance Department

NOTE:

i. **Medical Charges**:— The funds released under object A01274-Medical Charges shall be utilized by the concerned sanctioning authorities only upto the limit of medical re-imbursement claims i.e., Rs.30,000/- where verification / authentication by Director General, Health Services, Khyber Pakhtunkhwa is not required under the prevailing rules/policy instructions. The incurrence of expenditure against the remaining claims shall be authorized by Finance Department on case-to-case basis as usual subject to fulfilment of all codal formalities.

ii. **Repair & Maintenance**:— The funds allocated for civil works including Public Health Engineering & Irrigation, maintenance and repair of Roads, Highways, Bridges and Buildings, will be released on case to case basis with the approval of competent forum and issuance of administrative approval.

iii. **Release of Withheld Budget:**— The withheld budget under Current Expenditure (Provincial) will be released in 2nd quarter of current financial year subject to availability of financial resources. The individual demands for release of balance funds shall be examined at the level of concerned Sections and decided by the competent authority based on justification(s) provided by the Administrative Department concerned."

iv. **Grant in Aid:**— Grant in Aid will be released subject to the provision of bank statement by the concerned autonomous entity after unconditional release in 1st quarter.

III. **Development & Current Expenditure-Local Government**

a. **Development Expenditure**

Development share of District Development Funds shall be transferred to respective Local Governments on quarterly instalment basis, which have not been provided development funds during financial year 2020-21. Such

Districts, TMAs and VCs/NCs which have been provided development budget during last financial year (2020-21), shall be facilitated with funds subject to utilization of 60% development funds of last financial year.

b. **Current Expenditure**

SR.#	GRANT	FUNDS TO BE TRANSFERRED
1.	Salary	On monthly installment basis subject to adjustment of balance available from previous month.
2.	Non-salary	On quarterly installment basis subject to availability of financial resources.

IV. **Grant to Local Councils**

SR.#	GRANT	FUNDS TO BE TRANSFERRED
1.	TMA	On monthly installment basis subject to availability of financial resources.
2.	Cantonment Board	
3.	Grant to VCs/NCs	**100%** share of the Grant on monthly installment basis subject to availability of financial resources.

V. **Development Authorities**

Grant in Aid shall be released to the concerned development authority on quarterly basis.

VI. **Urban Immovable Property Tax**

UIPT shall be transferred to respective Development Authorities/TNAs on quarterly basis. During 1st quarter, the amount transferred may be based on provisional estimates. Any adjustments may be made to these amounts in the following quarter based upon actual collections.

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