

# SENATE OF PAKISTAN



## REPORT OF THE SENATE STANDING COMMITTEE ON FINANCE, REVENUE AND ECONOMIC AFFAIRS



**REPORT OF THE SENATE STANDING COMMITTEE ON FINANCE  
REVENUE AND ECONOMICS AFFAIRS ON STARRED QUESTION  
NO. 9-A ASKED BY SENATOR HAJI HIDAYATULLAH KHAN IN THE  
SITTING OF THE SENATE HELD ON 22<sup>ND</sup> DECEMBER, 2021  
REGARDING "SOME AMOUNT OF NFC AWARD OUT OF THE  
SHARE OF KHYBER PAKHTUNKHWA HAS NOT YET BEEN  
RELEASED, IF SO, REASONS FOR DELAY AND TENTATIVE  
DEADLINE FOR THE RELEASE OF THE OUTSTANDING AMOUNT"**

**PRESENTED BY  
SENATOR MUHAMMAD TALHA MAHMOOD  
CHAIRMAN**

## SENATE SECRETARIAT

### REPORT OF THE SENATE STANDING COMMITTEE ON FINANCE REVENUE AND ECONOMICS AFFAIRS ON STARRED QUESTION NO. 9-A ASKED BY SENATOR HAJI HIDAYATULLAH KHAN IN THE SITTING OF THE SENATE HELD ON 22<sup>ND</sup> DECEMBER, 2021 REGARDING "SOME AMOUNT OF NFC AWARD OUT OF THE SHARE OF KHYBER PAKHTUNKHWA HAS NOT YET BEEN RELEASED, IF SO, REASONS FOR DELAY AND TENTATIVE DEADLINE FOR THE RELEASE OF THE OUTSTANDING AMOUNT

I, Senator Muhammad Talha Mahmood, Chairman of the Standing Committee on Finance, Revenue And Economic Affairs have the honour to present, on behalf of the Committee, this report on Starred Question No. 9-A, asked by Senator Haji Hidayatullah Khan in the sitting of the Senate held on 22<sup>nd</sup> December, 2021 regarding "Some amount of NFC Award out of the Share of Khyber Pakhtunkhwa has not yet been released, if so, reasons for delay and tentative deadline for the release of the outstanding amount". The matter was referred to the Senate Standing Committee for Finance, Revenue and Economic Affairs for consideration and report.

2. The Composition of the Committee is as under:

1. Senator Muhammad Talha Mahmood	<b>Chairman</b>
2. Senator Dr. Shahzad Waseem (Leader of the House)	Member
3. Senator Farooq Hamid Naek	Member
4. Senator Saleem Mandviwala	Member
5. Senator Sherry Rehman	Member
6. Senator Mohsin Aziz	Member
7. Senator Zeeshan Khanzada	Member
8. Senator Kamil Ali Agha	Member
9. Senator Musadik Masood Malik	Member
10. Senator Dilawar Khan	Member
11. Senator Anwaar ul Haq Kakar	Member
12. Senator Saadia Abbasi	Member
13. Senator Syed Faisal Ali Subzwari	Member
14. Senator Faisal Saleem Rehman	Member
15. Minister for Finance, Revenue and Economic Affairs	Ex-Officio Member

3. The Committee took up discussion on the issue in its meeting held on 18<sup>th</sup> February, 2022. The following members attended the meeting.

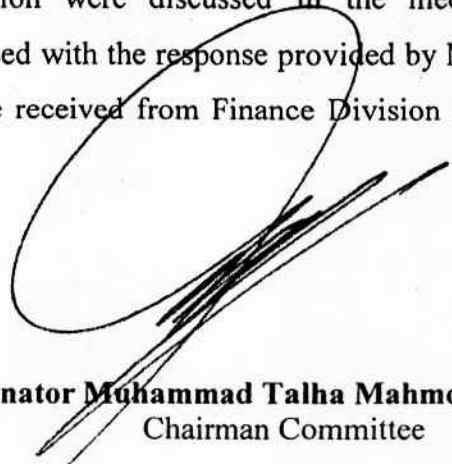
i. Senator Muhammad Talha Mahmood	Chairman
ii. Senator Dr. Shahzad Waseem (Leader of the House)	Member
iii. Senator Sherry Rehman	Member

iv.	Senator Saadia Abbasi	Member
v.	Senator Saleem Mandviwala	Member
vi.	Senator Zeeshan Khanzada	Member
vii.	Senator Kamil Ali Agha	Member
viii.	Senator Musadik Masood Malik	Member
ix.	Senator Faisal Saleem Rehman	Member
x.	Senator Haji Hidayatullah Khan	Mover

4. Senator Haji Hidayatullah Khan, informed the Committee that question was asked in House about the erstwhile FATA share in the National Finance Commission (NFC) award and he further asked about the share of Khyber Pakhtunkhwa before and after merger, including how much has been paid from last three year to Khyber Pakhtunkhwa under NFC award. The Additional Secretary, Finance, replied that the question received from the house mentioned about some amount being not released to Khyber Pakhtunkhwa from its NFC share and the reasons for it. He informed the Committee that there is no question about Khyber Pakhtunkhwa being not receiving its share from NFC award and there was no question asked pertaining to FATA's share from NFC, so far an amount of Rs.322.135 billion has been released during the current financial year upto 31<sup>st</sup> January, 2022. He said there is a mechanism that Finance division releases funds to Provinces according to their share, fixed under NFC, on the basis of actual collection of Divisible Pool Taxes on fortnightly basis on 17th and last working day of the each month as per the reporting of FBR. To this, Senator Haji Hidayatullah Khan asked about the share which would be received by the FATA after merger with Khyber Pakhtunkhwa. Additional Secretary, Finance, replied a new NFC was formulated in 2020, and there are seven sub-groups including one on FATA, where recommendations can be given with regard to new NFC. The Chairman Committee directed the Ministry of Finance to review the issue of FATA as well as Hazara division in the newly formed sub-groups on NFC, as after merger of FATA, Hazara's division share in Khyber Pakhtunkhwa has been reduced.

5. Details received from Finance Division were discussed in the meeting. The Committee after comprehensive discussion agreed with the response provided by Ministry of Finance and disposed off the matter. Response received from Finance Division is attached herewith.

  
(Iffat Mustafa)  
Secretary Committee

  
(Senator Muhammad Talha Mahmood)  
Chairman Committee

Government of Pakistan  
Finance Division  
(PF-Wing)  
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**BRIEF**

**Subject: MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE, REVENUE AND ECONOMIC AFFAIR.**

Mr. Haji Hidayatullah Khan, Senator has put following agenda item is as under:

*"Discussion on Question NO.9-A, asked by Senator Haji Hidayatullah Khan, regarding some amount of NFC award out of the share of Khyber Pakhtunkhwa has not yet released, if so, reasons for delay and deadline for the release of the outstanding amount was taken up in the House on 22<sup>nd</sup> December, 2021.*

2. The reply to the above question given by the Finance Minister is annexed.
3. Finance Division releases funds to Provinces according to their share, fixed under NFC Award, on the basis of actual collection of Divisible Pool Taxes on fortnightly basis on 17<sup>th</sup> and last working day of the each month as per reporting of FBR on the same date as per NFC Award 2009 (President's Order No. 6 of 2010).
4. It is, stated that the exact share calculated as per NFC Award stands released to Government of Khyber Pakhtunkhwa during current financial year upto 31.01.2022 as per details given below:

(Rs. In billion)								
Particular	July, 2021	Aug, 2021	Sep, 2021	Oct, 2021	Nov, 2021	Dec, 2021	Jan, 2022	Total
Divisible Pool	37.817	38.153	49.083	40.621	43.958	53.824	44.451	307.907
Straight Transfer	0.728	1.431	1.799	4.682	2.680	2.429	0.479	14.228
<b>Total</b>	<b>38.545</b>	<b>39.584</b>	<b>50.882</b>	<b>45.303</b>	<b>46.638</b>	<b>56.253</b>	<b>44.93</b>	<b>322.135</b>

5. As per clause 4 of Article 160 read with Article 78 of the Constitution, the share of Provinces in the NFC Award does not form part of the Federal Consolidated Fund. As such, Federal Government is not in a position to impose any kind of cut on the Provincial Share.

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GOVERNMENT OF PAKISTAN

FINANCE DIVISION

(PF WING)

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Subject: ADMITTED COPY OF STARRED/UN-STARRED SENATE QUESTION, 316<sup>TH</sup> SESSION LIST NO.1)

<p>QUESTION BY * <u>MR. HAJI HADAYATULLAH KHAN, SENATOR</u></p>	<p><u>REPLY BY</u> <u>THE FINANCE DIVISION</u></p>
<p>Will the Minister for Finance and Revenue be pleased to state whether it is fact that some amount of NFC award out of the share of Khyber Pakhtunkhwa has not yet been released, if so, reasons for delay and tentative deadline for the release of the outstanding amount?</p>	<p>No. It is not a fact that some amount of NFC Award out of the share of Khyber Pakhtunkhwa has not yet been released. Federal Government is timely releasing full NFC share to all the Provinces.</p>



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GOVERNMENT OF PAKISTAN  
FINANCE DIVISION  
(PF WING)  
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**NOTE FOR PAD**

Subject: **ADMITTED COPY OF STARRED/UN-STARRED SENATE QUESTION, 316<sup>TH</sup> SESSION LIST NO.1)**

Mr. Haji Hidayatullah Khan, Senator has put forward following question is as under:

"Will the Minister for Finance and Revenue be pleased to state whether it is fact that some amount of NFC award out of the share of Khyber Pakhtunkhwa has not yet been released, if so, reasons for delay and tentative deadline for the release of the outstanding amount?"

2. Finance Division releases funds to Provinces according to their share, fixed under NFC Award, on the basis of actual collection of Divisible Pool Taxes on fortnightly basis on 17<sup>th</sup> and last working day of the month as per reporting of FBR on same date as per NFC Award 2009 (President's Order No.6 of 2010) (Annex-I).

3. It is, stated that the exact share calculated as per NFC Award stands released to Government of Khyber Pakhtunkhwa during current financial year upto 30.11.2021 as per details given below:

(Rs. in billion)						
Particular	July, 2021	Aug, 2021	Sep, 2021	Oct, 2021	Nov, 2021	Total:
Divisible Pool	37.817	38.153	49.083	40.621	43.958	209.632
Straight Transfers	0.728	1.431	1.799	4.682	2.680	11.320
<b>Total:</b>	<b>38.545</b>	<b>39.584</b>	<b>50.882</b>	<b>45.303</b>	<b>46.638</b>	<b>220.952</b>

4. As per clause 4 of Article 160 read with Article 78 of the Constitution, the share of Provinces in the NFC Award does not form part of the Federal Consolidated Fund. As such, Federal Government is not in a position to impose any kind of cut on the Provincial Share.

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ISLAMABAD, MONDAY, MAY 10, 2010

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## 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;

(389)

[2438(2010)/Ex. Gaz.]

Price : Rs. 5.00

AND WHEREAS the said Commission has also submitted its recommendations with regard to the said distribution;

NOW, THEREFORE, in pursuance of clauses (4) and (7) of Article 160 of the Constitution, the President is pleased to make the following Order:—

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

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

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

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

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

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

(a) taxes on income;

(b) wealth tax;

(c) capital value tax;

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

(e) export duties on cotton;

(f) customs-duties;

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

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



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

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

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

(a) Population	82.0%
(b) Poverty or backwardness	10.3%
(c) Revenue collection or generation	5.0%
(d) Inverse population density	2.7%

(2) The sum assigned to the Provincial Governments under Article 3 shall be distributed amongst the Provinces on the basis of the percentage specified against each:—

(a) Balochistan	9.09%
(b) Khyber Pakhtunkhwa	14.62%
(c) Punjab	51.74%
(d) Sindh	24.55%
Total:	<u>100.00%</u>

(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.*

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SYED SULTAN AHMED,  
*Senior Joint Secretary.*