

Doing Business in Pakistan

2008



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Pakistan has been provided by the office of UHY representatives:

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UHY Hassan Naeem & Co. Chartered Accountants has been established since 2006 and specializes in the fields of Taxation, Auditing, Accounting, Investigation and Business and Financial consultation. Both of the partners have provided services in following sectors.

- Chemical
- Construction/Real Estate
- Education
- Electric Appliances
- Food and Allied
- General Merchandisers
- Government Organisations
- Leather and Tanneries

- Oil and Gas
- Pharmaceutical/ Hospital
- Sugar and Allied
- Textiles
- Technology and Communication
- Service Sector

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at December 2008.

We look forward to helping you do business in Pakistan.

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2. Business environment

The Pakistan Constitution and Legal System

Pakistan is a federal republic with four provinces, a capital territory (Islamabad) and territory consisting of tribal areas. Pakistan also administers Azad Kashmir and the Northern Areas.

The constitution of the Islamic Republic of Pakistan of 1973 provides for Parliamentary form of Government. The Prime Minister is the head of Government who is elected by the National Assembly and the President is the head of the federation who is collectively elected by the National Assembly, the Senate and the Provincial Assemblies. The National Assembly and Senate are the legislator institutions.

Pakistan's legal system is based on English common law as adapted to the needs of an Islamic state with few modifications. The High Court and the Supreme Court of Pakistan are the highest forum of judiciary at provincial and national level, respectively. Additionally, the Shariah court is responsible for ensuring that the country's laws are as per Islamic injunctions.

The Geographical Location

Roughly twice the size of California, Pakistan covers an area of approximately 803,940 square kilometres. Pakistan shares its eastern border with India and north-eastern with China, with Afghanistan running along the northwest and Iran in the southwest. Along the southern boundary of Pakistan runs the Arabian Sea with 1,064 kilometres of coastline.

The Domestic Market

Population Demographics

Pakistan has a multicultural and multi-ethnic society. Pakistan is the sixth most populous Country of the world. Pakistan has a current population of approximately 172.8 million, with a growth rate of 1.999% (July 2008 estimates). The majority of southern Pakistan's population lives along the Indus River; in the north, most of the people are concentrated in the cities of Faisalabad, Lahore, Rawalpindi, Islamabad, and Peshawar. Karachi is the capital of the Sindh province and the largest city in Pakistan. By virtue of being a sea-port it is the financial and commercial centre of Pakistan.

With a population of over eleven million, Karachi is also the fifth most populous city of the World.

Ninety five percent of the Country's population is Muslim, making Pakistan the second largest Muslim country in the world and an important member of the Organization of the Islamic Conference (OIC). Hinduism and Christianity form the leading minority religions; other religious groups include Sikhs, Parsees, and a small number of Buddhists. The constitution defines Pakistan as an Islamic republic and the freedom of other religions is guaranteed by the constitution.

International Time

International time of Pakistan is GMT + 5.

Language

English is the official language of Pakistan and is extensively used by educated people. The national language of Pakistan is Urdu. Punjabi is the most widely spoken language, followed by Sindhi, Pashto, Saraiki, and Baluchi respectively.

Currency

The currency of Pakistan is Rupee and the acronym used for the currency is PKR.

The Economy

Pakistan is a nation with a diverse economy that include textile, chemical, food processing, agriculture and other industries. It is the 25th largest economy of the world. Substantial macroeconomic reforms since 2000, most notably at privatizing the banking sector have helped the economy. Pakistan has seen a growing middle class population since then and poverty levels have decreased by 10% since 2001. GDP growth, spurred by gains in the industrial and service sectors, remained in the 5-8% range in 2003-08. In 2005, the World Bank named Pakistan the top reformer in its region and in the top 10 reformers globally.

Since the beginning of 2008, Pakistan's economic outlook has taken a dramatic downturn due to the Security concerns stemming from the nation's role in the War on Terror and the overall recession in the world economy. The growth in 2008-2009 is projected at 2.5%.

Major exports are textiles (garments, cotton cloth, and yarn), rice, leather, sports goods, and carpets and rugs. United States of America, United Arab Emirates, England, Germany and Hong Kong are the main export partners, while major import commodities are petroleum, petroleum products, machinery, chemicals, transportation equipment, edible oils, pulses, iron and steel, tea. The major import partners are United Arab Emirates, Saudi Arabia, Kuwait, United States of America and China. Cotton, wheat, rice and sugarcane are Pakistan's main crops while main industries of the Country are textiles, telecommunications, cement, power, commercial & investment banking, oil & gas, agro-based produce, sports goods, surgical goods, leather and leather goods, and cutlery. Karachi, Lahore, Islamabad, Rawalpindi, Faisalabad, Hyderabad, Gujranwala and Sialkot are the Country's key business centers. Karachi and Gwadar have the sea ports while Lahore, Rawalpindi, Sialkot, Hyderabad, Multan, Faisalabad, Peshawar and Quetta have the dry ports. Islamabad, Karachi, Lahore, Peshawar Quetta and Sialkot have the International Airports.

Latest statistics regarding the Pakistan economy are as follow;

GDP	\$454.2 billion (PPP) (2008 est.)
GDP growth	5.8% (2008)
GDP per capita	\$2,600 (2008)
GDP by sector	Agriculture: 20.4%, industry: 26.6%, services: 53% (2008 est.)
Inflation (CPI)	20.8% (2008 est.)
Population below poverty line	24% ((2007 est.)
Labour force	50.58 million (2008 est.)
Unemployment	7.4% (2008 est.)

3. Foreign investment

Foreign investments have played a critical role in Pakistan's economic development since the first years of independence. Since 1954, the government has tried to attract foreign investment to maintain economic development, provide specialized technical knowledge, and bring in much-needed foreign exchange. Incentives for private investment include guarantees for the repatriation of capital invested in approved industries, facilities for remittance of profits and guarantees for equitable compensation in the event of nationalization of an industry. In addition, special tax concessions available to certain local industries are also available to foreign investors. Since the late 1980s, a series of regulatory reforms related to exchange controls, repatriation of profits, credit for foreign-owned firms, issuing of equity shares, foreign currency accounts, and transactions on the stock exchange have significantly reduced the restrictions on general foreign investor activity in the wider Pakistani economy.

Investment Package

Foreign investment in Pakistan enjoys full protection and repatriation facilities. The Foreign Private Investment (Promotion and Protection) Act, 1976 provides guarantees for repatriation of foreign investment to the extent of original investment, profits earned on such investment, and appreciation of capital.

Policy Parameters	Manufacturing Sector	Non -Manufacturing Sectors		
		Agriculture	Infrastructure & Social	Services including IT & Telecom Services
Govt. Permission	Not required except 4 specified industries *	Not required except specific licenses from concerned agencies		
Remittance of capital, profits, dividends, etc	Allowed	Allowed		
Upper Limit of foreign equity allowed	100%	100%	100%	100%
Minimum Investment Amount (M \$)	None	0.3	0.3	0.15
Customs duty on import of PME	5%	0%	5%	0-5%
Tax relief (IDA, % of PME cost)	50%	50%		
Royalty & Technical Fee	No restriction for payment of royalty & technical fee	Allowed as per guidelines - Initial lump-sum up to \$100,000 - Max Rate 5% of net sales - Initial period 5 years		

Specified Industries:

- Arms and ammunitions
 - High Explosives.
 - Radioactive substances
 - Security Printing, Currency and Mint.
- No new unit for the manufacturing of alcohol, except, industrial alcohol.

PME= Plant, Machinery and Equipment
IDA= Initial Depreciation Allowance

Major incentives for investments in Pakistan

- Abundant land and natural resources
 - Extensive agricultural land
 - Crop production (wheat, cotton, rice, fruits and vegetables)
 - Mineral reserves (coal, crude oil, natural gas, copper, iron ore, gypsum, etc.)
 - Fisheries and livestock production
- Strong human resources
 - English speaking work force
 - Cost-effective managers and technical workers
- Large and growing domestic market
 - 160 million consumers with growing incomes
 - A growing middle-class moving to sophisticated consumption habits
- Well-established infrastructure and legal system
 - Comprehensive road, rail and sea links
 - Good quality telecommunications and IT services
 - Modern company law
 - Long-standing corporate culture
- Strategic location as a regional hub
 - Principal gateway to the Central Asia Republics
 - Strong and long-standing links with the Middle East and South Asia
 - Comprehensive duty-free facilities for investors.

Investment Opportunities

There are good investment opportunities in the following sectors of Pakistan economy.

- Oil & Gas
- Energy and Power
- Alternate Energy
- IT Projects
- Telecommunication

- Agriculture & Agro-based Projects
- Housing and Construction
- Textile
- Infrastructure
- Health Projects
- Mining & Minerals
- Services Sector
- Tourism Projects.

Direct investment may take the form of a foreign controlled company or a branch of a foreign company with specific assets assigned to it. The purchase of securities through the stock exchanges as a financial investment is usual where control or participation in the company's management is not the aim.

4. Immigration Procedure

Business Visa

Missions abroad are authorized to grant five years validity (Multiple) visa within 24 hours to businessmen of the following 69 countries of Business Visa List (BVL) on the production of any of the following documents. Duration of each stay is for three months:

- Recommendation letter from Chamber of Commerce & Industry of the respective country
- Invitation letter from Business organization duly recommended by the concerned Trade Organization/ Association in Pakistan
- Recommendatory letter by Honorary Investment Counsellor of BOI / Commercial Attach posted at Missions abroad.

LIST OF BUSINESS FRIENDLY COUNTRIES (BVL)

S.No.	Name of Country	S.No.	Name of Country
1	Argentina	36	Malaysia
2	Australia	37	Malta
3	Austria	38	Mauritius
4	Azerbaijan	39	Mexico
5	Bahrain	40	Morocco
6	Belgium	41	Netherlands
7	Bosnia	42	New Zealand
8	Brazil	43	Norway
9	Brunei	44	Oman
10	Canada	45	Philippines
11	Chile	46	Poland
12	China	47	Portugal
13	Cyprus	48	Qatar

14	Czech Republic	49	Romania
15	Denmark	50	Russia
16	Egypt	51	Saudi Arabia
17	Estonia	52	Singapore
18	Finland	53	Slovakia Republic
19	France	54	Slovenia
20	Germany	55	South Africa
21	Greece	56	South Korea
22	Hungary	57	Spain
23	Iceland	58	Sweden
24	Indonesia	59	Switzerland
25	Iran	60	Tajikistan
26	Ireland	61	Thailand
27	Italy	62	Turkey
28	Japan	63	Turkmenistan
29	Jordan	64	U.K.
30	Kazakhstan	65	U.S.A.
31	Kuwait	66	UAE
32	Kyrgyzstan	67	Ukraine
33	Latvia	68	Uzbekistan
34	Lithonia	69	Vietnam
35	Luxembourg		

Missions abroad can grant one month validity and stay (Multiple) entry visa to the businessmen of remaining 120 countries (except Israel) subject to the production of afore-mentioned requisite documents from applicants own country or place of legal residence by Ambassador / High Commissioner / Head of Mission only on the following criteria:

- The applicant belongs to Company of International repute and / or
- fulfils the criteria laid down for List 'A' country in respect of valid sponsorship from Pakistan.

Conversion of Business visa into Work visa and vice versa has been discontinued.

Visa on Arrival

Visa on Arrival (VOA) for 30 days validity and stay will be given to the businessmen of above mentioned 69 countries of Business Friendly List (BVL) on production of any of the following documents:

- Recommendation letter from Chamber of Commerce & Industry of the respective country of the foreigner
- Invitation letter from Business organization duly recommended by the concerned Trade Organization/ Association in Pakistan
- Recommendatory letter by Honorary Investment Counsellor of BOI / Commercial Attach posted at Missions abroad.

Work Visa

Pakistan Missions abroad are authorized to grant entry Work Visa to foreign expatriates on the recommendations of Board of Investment for one year (Multiple) validity, extendable on yearly basis in Pakistan. Board of Investment will process work visa applications expeditiously within four weeks and recommend to the Ministry of Interior for authorization of visa to concerned Mission.

Visa Committee under the Chairmanship of Secretary Board of Investment approves the work visa cases received in Board of Investment through the companies working in Pakistan.

Visa advice is however issued by Ministry of Interior to Pakistan Mission abroad as per recommendation of Board of Investment, in case of fresh entry visa and to Regional Passport Offices in case of visa extension.

Extension of three months provisional work visa, on application, recommended by Board of Investment would be endorsed by the Regional Passport Offices instead of Ministry of Interior.

Visa Extension

The Regional Passport Offices at Islamabad as well as at Provincial capitals have been empowered to allow one year extension in business visa on submission of the following requisite business related documents.

Valid passport / business visa

Documents showing substantial investment / export / import during last year

Registration letter from Tourism Division (in case of hotel business)

Other business documents (i.e. letter from Chamber of Commerce & Industry / Registrar of Company, partnership deed, article of association etc.)

Extension in visa beyond one year will be granted by the Ministry of Interior on production of the requisite business documents.

5. Setting up a Business in Pakistan

License Requirements

Specialized businesses

In Pakistan, certain businesses have been declared specialized and in addition to corporate and tax requirements, a specific license is required to commence such businesses. Such businesses are Banking Companies, Non-Banking Finance Companies, Security Service Providing Companies, Corporate Brokerage Houses, Money Exchange Companies, a Company which invests in Arms and Ammunition, Security Printing, Currency and Mint, High Explosives and Radio Active Substances.

Certain conditions e.g. as to minimum capital, qualification of directors, corporate structure and area of operations etc. are required to be complied with to obtain these licenses. However, the conditions for grant of license may vary from business to business.

General business

For other businesses some procedural approvals etc. may be required but no specific license is necessary.

Types of Business Organizations

After complying with the requirements of license, a business can be established in any of the following forms:

Sole Proprietorship

An individual may set up the business as sole proprietor without any registration except with Income tax and Sales tax authorities.

Partnership Firm

A partnership firm can be established by executing a partnership deed on a stamp paper and getting the same Notarized by the authorized Notary Public Magistrate. The Partnership Act, 1932 is the legal framework for partnership firms. The firm needs to get itself registered with the respective registrar of firm in the area and also need to get registration with the Income Tax and Sales Tax authorities.

Companies

The Companies Ordinance, 1984 (the Ordinance) and The Companies (General Provisions and Forms) Rules, 1985 provide the legal framework for operations of companies in Pakistan and the Securities and Exchange Commission of Pakistan (the Commission) is the regulatory authority in this regard. In Pakistan, a company may be formed with or without limited liability and the Ordinance provides for the following categories of the companies:

- A company limited by shares
- A company limited by guarantee
- An unlimited company.

Companies formed in any of the above categories can further be classified in two types:

- private companies
- public companies.

Formation of Company

Public Company

Any three or more persons associated for any lawful purpose may, by subscribing their names to the Memorandum of Association (document that defines the objectives of the company) and complying with the registration requirements, form a public company. There is no limitation as to the maximum number of members of such a company and after complying with the prescribed requirements; it may offer its shares and other securities to the general public. The public company may get its shares and other securities listed on the stock exchange(s).

Private Company

A private company can be established by any one or more persons associated in such manner as specified in the case of a public company and means a company which by its articles of association (document that defines the standard operating procedures of the company):

- Restricts the right to transfer its shares, if any;
- Limits the number of its members to fifty excluding the persons who are in employment of the company;

- Prohibits any invitation to the public to subscribe for the shares, if any, or debentures of the company.

The name of every public limited company should include the word “Limited” as the last word of the name. And the name of every private company and a company limited by guarantee should respectively include the parenthesis and word “Private” and “Guarantee” before the last word “Limited”. The Commission may grant license to a non-profit association for the promotion of commerce, art, science, religion, sports, social services, charity or any other useful object to be registered as a company with limited liability without the addition of the words “Limited”, “(Private) Limited” or “(Guarantee) Limited” as the case may be, to its name.

The schedule of fees for registration of a company is as following:

- For the registration of a company whose nominal share capital does not exceed Rs. 100,000 the fee shall be Rs. 2,500.
- For the registration of a company whose nominal share capital exceeds Rs. 100,000, a fee of Rs. 2,500 is payable along with an additional fee to determine according to the amount of nominal share capital as follows:
 - For every 100,000 rupees of nominal share capital or part of 100,000 rupees, after the first 100,000 rupees, up to 5,000,000 rupees, a fee of Rs. 500.
 - For every 100,000 rupees of nominal share capital or part of 100,000 rupees, after the first 5,000,000 rupees, a fee of Rs. 250.

Provided that for the registration of a company the total amount of fee to be paid shall not exceed ten million rupees.

Modaraba

Pakistan’s commitment to promote an “Interest (Riba) free” economic system was carried forward with the promulgation of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. Its primary aim was to accelerate capital formation and economic development in accordance with the tenets of Islam. It is a distinct form of business and its general concept is that investment comes from the one partner while the management and work is an exclusive responsibility of

the other, and the profits generated are shared in a predetermined ratio. The corporate formation is arranged in such a way that a Management Company is formed which is responsible for the management of Modaraba and business is executed by the Modaraba itself. For all legal and practical purposes both the Management Company and Modaraba are separate entities.

A management company may operate more than one Modarabas. The Modaraba pays a fee to the Management Company. Like Shares of a company, Modaraba certificates are issued to the equity holders of the Modaraba. The certificates can also be offered to the general public. Modaraba has established itself as a well understood Shariah compliant form of business and has been practiced for the last 20 years. It also enjoys certain tax benefits which are discussed in the relevant section.

Listing of Companies and Securities (Public issue)

There are three stock exchanges in the country, namely:

- Karachi stock exchange
- Lahore stock exchange
- Islamabad stock exchange.

The Karachi Stock Exchange is the biggest and most liquid exchange in Pakistan and was declared as the “Best Performing Stock Market of the World for the year 2002”. As on Dec 31, 2008 653 companies were listed with a market capitalization of Rs. 1,858.698 billion having listed capital of Rs. 750.477 billion.

All exchanges have their own regulations which are mostly similar. The Securities and Exchange Commission of Pakistan (Pakistan) grants the approval for the public offer and after such approval a company may obtain listing for its equity and/or debt securities according to the regulations of the Exchange. The stock exchange regulations provide for certain reporting and other requirements. Some important regulations are in respect of notice of board and shareholders’ meetings, approval for date of annual general meeting of the company, reporting of the results and announcements of the dividends, payment of dividend at least once in five years and code of corporate governance. The code is a comprehensive set of rules for ensuring transparency and good governance in the management of the company. For an application to the Commission seeking approval to issue, circulate and publish the prospectus for public offer, a non-refundable processing fee amounting to Rs. 25,000 is payable.

Foreign Investors in Pakistan

A foreign investor may establish an independent business with any of above mentioned corporate structures. He can establish a sole proprietorship, can enter into partnership with any local person or foreigner and even can establish a company with or without participation of local shareholder(s) and director(s).

If a foreign enterprise wishes to establish a business in Pakistan as a part of its international operations, in addition to the said corporate structures it can obtain registration with Board of Investment – Government of Pakistan (the Board), for opening of a branch office, marketing office or liaison office. Companies Ordinance 1984 imposes certain restrictions on the operations of the enterprise.

6. Labour

Labour Policy

The labour policy issued by the Government of Pakistan lays down the parameters for the growth of trade unionism, the protection of workers' rights, the settlement of industrial disputes, and the redress of workers' grievances. The policy also provides for the compliance with international labour standards ratified by Pakistan. At present, the labour policy as approved in year 2002 is in force.

Child Labour

Awareness of the problem provided the basis for enactment of the Employment of Children Act, 1991 in Pakistan, which has been followed by a number of administrative and other initiatives to address the issue of child labour effectively. The Constitution of the Country also protects the rights of children and states:

“No child below the age of fourteen shall be engaged in any factory or mine or in any other hazardous employment. All forms of forced labour and traffic in human beings are prohibited.”

Minimum Wages

The Government has prescribed the rates of minimum wages to be paid which are as follows:

Area	Rate of Minimum Wage per Month	Deduction for Providing Housing Accommodation per month	Deduction for providing transport per month
Karachi District	6,000	25	10
Industrial Area	6,000	20	5
Other Areas	6,000	13	2

Employees' social security ordinance, 1965

An Employees Social Security scheme was introduced in Pakistan under the provisions of the Provincial Employees Social Security Ordinance, 1965. The main objective is to provide comprehensive medical cover to the secured workers and their family members including parents and to provide financial assistance in case of sickness and employment injuries. The Social Security scheme is implemented on the basis of the contributory principle. The main source of income is the Social Security Contribution, which is collected from the employer at the rates specified by the Section 20 of the Ordinance.

Workers welfare fund ordinance, 1971

Through the Ordinance, the government has constituted a fund called the "Workers' Welfare Fund" for the welfare of workers. The Fund consists of:

- An initial contribution of Rupees one hundred million by the Federal Government

Such money as may, from time to time, be paid by industrial establishments under section 4 and section 4 -A.

(An industrial establishment, the total income of which in any year is not less than one hundred thousand rupees, shall pay to the Fund in respect of that year a sum equal to two percent of its total income as is assessable under the Income Tax Ordinance, 2001.)

- Voluntary contribution
- Income from the investment made out of the fund
- Proceeds of loans raised by the Government Bodies.

The Fund is utilized for financing of projects concerned with the establishment of housing estates or construction of houses for workers and the financing of other welfare measures including education, training and apprenticeship for the welfare of workers.

Companies profit (workers participation) act, 1968

The 1968 Companies Profits (Workers' Participation) Act provides for participation of workers in the profits of the companies. The Act applies to Companies engaged in as industrial undertaking that fulfils the prescribed criteria. The amount of fund is distributed among workers of prescribed categories.

Employees' old age benefits act, 1976

The 1976 Employees Old Age Benefits Act is applicable to every industry or establishment where five or more persons are employed directly or indirectly. Contribution shall be payable monthly by the employer to the Institute in respect of every person in his insurable employment, at the rate of five percent of his wages. This statute intends to provide security and benefit for old age to employees of industrial, commercial or other organizations covered by it. The Employee Old Age Benefits Institute (the Institute) formed under it collects and receives contributions, donations, bequests and all other payments. It deals with pensions, invalidity pension, widow's pensions, old age grants and other benefits, out of contribution payable to the Institute by every employer of industry.

7. Taxation

The Federal Board of Revenue (the Board) is the regulatory authority which is responsible for the management of the Taxation System and is engaged in the collection of taxes under various structures. The taxes, duties and other levies can be classified in two categories i.e. direct taxes and indirect taxes.

Direct Taxes

Direct taxation consists of Income Tax and Capital Value Tax.

Income Tax

The Income Tax Ordinance, 2001 and Income Tax Rules, 2002 provide the legal framework for the levy, collection and other matters related to income tax. The levy of income tax is an annual charge on the taxable income.

Classification of Person

Income Tax Ordinance 2001 classifies person as follow for the levy of tax:

- An Individual
- A company or association of persons incorporated, formed, organized or established in Pakistan or elsewhere
- The Federal Government, a foreign government, a political sub division of foreign government, or public international organization.

Association of person includes a firm, a Hindu undivided family, any artificial person and any body of person formed under a foreign law, but does not include a company;

The Income Tax Ordinance, 2001 provides a broader definition of the “Company” which includes:

- A company as defined in the Companies Ordinance, 1984;
- A body corporate formed by or under any law in force in Pakistan;
- A body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies;
- A trust, a co-operative society or a finance society or any other society established or constituted by or under any law for the time being in force;

- A foreign association, whether incorporated or not, which the Federal Board of Revenue has, by general or special order, declared to be a company for the purposes of this Ordinance;
- A foreign association, whether incorporated or not, which the Federal Board of Revenue has, by general or special order, declared to be a company for the purposes of this Ordinance;
- A provincial Government;
- A Local Government in Pakistan or a small company as defined in this Ordinance.

Heads of income

For the purpose of the imposition of tax and the computation of total income, all incomes are classified under the following heads:

- Salary
- Income from Property
- Income from Business
- Capital Gains
- Income from Other Sources.

Taxable income under a specific head means the income as reduced by allowable deductions. The net income from each head is added to arrive at the total income for the year, however, income from certain sources is subject to separate taxation, or is subject to presumptive tax. Under the presumptive tax regime, the income is subject to deduction of tax at source which becomes the discharge of final tax liability in respect of that income.

The taxation of income from a certain source under the normal or presumptive tax regime is notified by the Government and such classification once advised may also change. At present income from following sources is taxed under the presumptive tax regime:

- Imports of goods (by other than self consumption of manufacturers)
- Dividend received (except companies)
- Profit on debt

- Prize on a prize bond or winnings from raffle, lottery, quiz or crossword puzzle, or prize offered by companies for promotion of sale
- Payment to non residents
- Payment received for goods and services (certain exclusions apply in case of companies).

Scope of total income for tax purposes

The Residential status of an assessed is also an important concept as it determines the scope of total income for tax purposes. In the case of a resident assessed the total taxable income means income from all sources within and outside Pakistan subject to the provisions of double taxation treaties, while in the case of a non-resident individual it is restricted to Pakistan source income only.

An individual is a “resident individual” if he is present in Pakistan for 183 days or more in a tax year or if he is an employee or official of the Federal or Provincial Government posted abroad. A Company is considered to be resident when either it is incorporated or formed by or under any law enforceable in Pakistan or, the control or management of which is situated wholly in Pakistan at any time during the tax year. A registered firm, un-registered firm and association of persons, is considered resident when its management and control is situated (either wholly or partly) in Pakistan.

Tax year and filling of return

The tax year shall be a period of twelve months ending on 30th June of every year 'hereinafter referred to as 'normal tax year'. All taxpayers except companies are required to file their return of income for the tax year at the latest by 30th September immediately following the close of that tax year. Companies are required to file their return of income for the tax year on 30th September or 31st December depending upon the type of tax year.

A normal tax year consists of a period of twelve months starting from 1st July to 30th June. The Federal Board of Revenue may prescribe a different period of twelve months to be the “tax year” for various businesses. These different periods are called “Special Tax Year”. Accordingly the last date for filling the return of income is also different as prescribed for the normal tax year. A person may apply, in writing, to the Commissioner of Income Tax to allow him to use a twelve months' period, other than the normal tax

year, as a special tax year and the Commissioner may by an order, allow him to use such special tax year.

Tax rates

INDIVIDUALS AND A. O. P. (NORMAL INCOME)

No.	Taxable income	Rate of tax.
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs.100,000	0%
2.	Where the taxable income exceeds Rs.100,000 but does not exceed Rs.110,000	0.50%
3.	Where the taxable income exceeds Rs.110,000 but does not exceed Rs.125,000	1.00%
4.	Where the taxable income exceeds Rs.125,000 but does not exceed Rs.150,000	2.00%
5.	Where the taxable income exceeds Rs.150,000 but does not exceed Rs.175,000	3.00%
6.	Where the taxable income exceeds Rs.175,000 but does not exceed Rs.200,000	4.00%
7.	Where the taxable income exceeds Rs.200,000 but does not exceed Rs.300,000	5.00%
8.	Where the taxable income exceeds Rs.300,000 but does not exceed Rs.400,000	7.50%
9.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000	10.00%
10.	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.600,000	12.50%
11.	Where the taxable income exceeds Rs.600,000 but does not exceed Rs.800,000	15.00%
12.	Where the taxable income exceeds Rs.800,000 but does not exceed Rs.10,00,000	17.50%
13.	Where the taxable income exceeds Rs.10,00,000 but does not exceed Rs.13,00,000	21.00%

14.	Where the taxable income exceeds Rs.13,00,000	25.00%
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The exemption limit for the women is Rs. 125,000/-

INDIVIDUALS AND A. O. P. (SALARY INCOME)

S. No.	Taxable income	Rate of tax.
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs.180,000	0%
2.	Where the taxable income exceeds Rs.180,000 but does not exceed Rs.250,000	0.50%
3.	Where the taxable income exceeds Rs.250,000 but does not exceed Rs.350,000	0.75%
4.	Where the taxable income exceeds Rs.350,000 but does not exceed Rs.400,000	1.50%
5.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.450,000	2.50%
6.	Where the taxable income exceeds Rs.450,000 but does not exceed Rs.550,000	3.50%
7.	Where the taxable income exceeds Rs.550,000 but does not exceed Rs.650,000	4.50%
8.	Where the taxable income exceeds Rs.650,000 but does not exceed Rs.750,000	6.00%
9.	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.900,000,	7.50%
10.	Where the taxable income exceeds Rs.900,000 but does not exceed Rs.1,050,000	9.00%
11.	Where the taxable income exceeds Rs.1,050,000 but does not exceed Rs. 1,200,000,	10.00%
12.	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.1,450,000	11.00%
13.	Where the taxable income exceeds Rs.1,450,000 but does not exceed Rs.1,700,000	12.50%
14.	Where the taxable income exceeds Rs.1,700,000	14.00%

	but does not exceed Rs.1,950,000	
15.	Where the taxable income exceeds Rs.1,950,000 but does not exceed Rs.2,250,000	15.00%
16.	Where the taxable income exceeds Rs.2,250,000 but does not exceed Rs.2,850,000	16.00%
17.	Where the taxable income exceeds Rs.2,850,000 but does not exceed Rs.3,550,000	17.50%
18.	Where the taxable income exceeds Rs.3,550,000 but does not exceed Rs.4,550,000	18.50%
19.	Where the taxable income exceeds Rs.4,550,000 but does not exceed Rs.8,650,000	19.00%
20.	Where the taxable income exceeds Rs. 8,650,000.	20.00%

- The exemption limit for the women is Rs.240,000/-
- Salary rate will apply where tax payer's income chargeable under the head salary, is more than 50% of taxable income;
- Value of house provided by the employer shall be taken at the amount equal to rent which the employee would have received in cash from employer if accommodation was not provided or 45% of minimum time scale (or basic salary) which ever is higher;
- The valuation of conveyance facility provided shall be taken at 10% and 5% of value of motor vehicle where the facility used is exclusively for personal use and partly for personal use respectively. The value of motor vehicle shall be cost of acquiring the motor vehicle or fair market value in case of a leased vehicle;
- All perquisites and allowances are liable to tax without any exemption except medical and special allowance under clause 139 & 39 of 2nd schedule respectively.

Marginal Relief

In the case of a salaried individual, where the total income of a taxpayer marginally exceeds the maximum limit of above slabs, the income tax payable shall be the tax payable on the maximum of that slab plus an amount equal to:

20 % of the amount by which the total income exceeds the said limit	Where the total income does not exceed Rs. 500,000
30 % of the amount by which the total income exceeds the said limit	Where the total income does not exceed Rs. 1,050,000
40 % of the amount by which the total income exceeds the said limit	Where the total income does not exceed Rs. 2,000,000
50 % of the amount by which the total income exceeds the said limit	Where the total income does not exceed Rs. 4,450,000
60 % of the amount by which the total income exceeds the said limit	Where the total income exceeds Rs. 4,450,000

Companies

Type of Companies	Rate
Small Companies ; where turnover does not exceed Rs. 250 million	20 %
Small Companies ; where turnover exceeds 250 million but does not exceeds 350 million	Rs. 50 million plus 25 % of the amount exceeding Rs. 250 million
Small Companies ; where turnover exceeds 350 million but does not exceeds 500 million	Rs. 75 million plus 30 % of the amount exceeding Rs. 350 million
Small Companies ; where turnover exceeds 500	Rs. 120 million plus 35 % of the amount exceeding Rs. 500 million
Any other company	35 %

Retailers

Type of Retailers	Rate
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Turnover up to Rs. 5Million	0.5% of the Turnover *
Exceeding Rs. 5 Million but does not exceed Rs. 10 Million	Rs. 25,000 plus 0.5% of the amount exceeding Rs. 5 Million.
Exceeding Rs. 10 Million	Rs. 50,000 plus 0.75% of the amount exceeding Rs. 10 Million.

* Retailer being an individual or AOP having turnover up to Rs. 5 million can opt for normal tax regime.

Special rules for taxation of certain businesses

The Income Tax Ordinance, 2001 provides for separate provisions for taxation of the following businesses:

- The fourth schedule to the Ordinance provides the rules for the taxation of profits and gains of Insurance Business.
- The fifth schedule to the Ordinance provides the rules for the taxation of profits and gains from the exploration and production of petroleum.
- The seventh schedule to the Ordinance provides the rules for the taxation of profits and gains of the banking companies.

Withholding tax

Section 148 to Section 169 of The Income Tax Ordinance, 2001 provides for deduction of tax on certain payments. The ordinance provides for a complete procedure for the withholding tax system. Nature of such payments and pertinent rate of tax deduction is provided as follows:

Collection/ deduction of Tax at Source

Section	Responsible	Nature of Payment	Rate
148	Custom Authorities	Imports Reduced Rates under Part 11 of 2 nd Schedule: Clause 9. Fibers, Yarns & Fabrics and goods covered by the zero rating regime of the Sales Tax Act, 1990 13G. Gold, Cell Phone & Silver 23. Urea Fertilizer. 24. Pulses.	2% F 1% F 1% F 1% F 2% F
149	Employer	Salary Compensation on termination of employment including Golden Handshake, etc	Effective rate of tax. Average rate of tax for 3 years (optional)
150	Resident Company	Dividend. Reduced Rate under Part II of 2 nd Schedule: Clause 17 Dividend declared by the purchaser of Power Project Privatized by WAPDA.	10% F 7.5%F
151 (a)	All Payers	Yield on an account, deposit or certificate under National Saving Scheme or Post Office Saving Account.	10 % of profit or yield reduced by zakat paid.
(b)	Banking Company, Financial	Profit on account or deposits.	

(c)	Institutions		
	Federal Govt., Provincial Govt., Local Authority	Profit on any security issued.	
(d)	Banking Company, Financial Institution, Company, Finance Society	Profit on any bond, certificate, debenture, security, or instrument of any kind (other than a loan agreement between a borrower & a banking company or a development finance institution).	
152	All Tax Payers	<p>Payment to non resident except u/s 149 (salary), 150 (dividend), 153 (Goods & Services), 155(Income from Property) or 156 (Prizes & Winnings).</p> <p>Royalty / Fee for Technical Services</p> <p>Services Rendered / Construction Contracts / Contracts for advertisement by Satellite Channels.</p> <p>Payment of insurance premium or reinsurance premium</p> <p>Others.</p>	<p>15.0% F</p> <p>06.0% F</p> <p>05.0% F</p> <p>30.0 % F</p>
153 (1)	Federal Govt., Company, A.O.P. Constituted by or under Law, Foreign Contractor or Consultant or Consortium or Joint Venture or an association of	<p>Payments to resident person or permanent establishment of non resident for:</p> <p>Sale of Goods</p> <p>- Rice, Cotton seeds oil, Edible oils.</p> <p>- Sale of any other goods.</p> <p>Rendering of Services</p> <p>- Transparent</p> <p>- Others</p>	<p>01.5% F</p> <p>03.5% F</p> <p>02.0% F</p>

(1A)	person having turnover of Rs. 50 million or above in tax year 2007 and onward	Execution of contract other than contract for sale of goods or rendering services	06.0% F 06.0% F
	Every exporter or Export house	Services rendered in connection with export of goods.	0.05% F
153 A	All Tax Payers	Payment to Non resident media person relaying from outside Pakistan	10.0%F
154	Authorized foreign exchange dealers /Banking Company	Export proceeds/Supply of goods to exporter under inland back to back letter of credit Commission due to an indenting commission agent	01.0% F 05.0%F
155	Federal Govt., Provincial Govt. Local Authority Company, Non Profit Organization, Diplomatic Mission	Rent of Immovable property (including Furniture & Fixtures and amounts for services relates to such property). Individual & AOP Where the gross amount of rent does not exceed Rs. 150,000 Where the gross amount of rent exceeds Rs. 150,000 but does not exceed Rs. 400,000 Where the gross amount of rent exceeds Rs. 400,000 but does not exceed Rs. 1,000,000	F Nil 5% of the amount exceeding Rs. 150,000 Rs. 12,500 plus 7.50% of the amount exceeding Rs.

		<p>Where the gross amount of rent exceeds Rs. 1,000,000</p> <p>Company</p> <p>Where the gross amount of rent does not exceed Rs. 400,000</p> <p>Where the gross amount of rent exceeds Rs. 400,000 but does not exceed Rs. 1,000,000</p> <p>Where the gross amount of rent exceeds Rs. 1,000,000</p>	<p>400,000</p> <p>Rs. 57,500 plus 10.0% of the amount exceeding Rs. 1,000,000</p> <p>5.00%</p> <p>Rs. 20,000 plus 7.50% of the amount exceeding Rs. 400,000</p> <p>Rs. 65,000 plus 10.0% of the amount exceeding Rs. 1,000,000</p>
156	All Payers	<p>Prize on Prize bonds.</p> <p>Winning from raffle, lottery, Prize on winning quiz, Prize offered by companies for promotion of sale or cross word puzzle.</p>	<p>10.0% F</p> <p>20.0% F</p>
156(A)	All Payers	Petroleum products to Petrol pump operator.	10.0% F

231-A	All Banks	Cash withdrawals exceeding Rs. 25,000 in a day.	0.30%
231-B	Manufacturer /Authorized Dealer	Sale of Motor Vehicle with different Engine Capacity	Rs. 7,500 to Rs. 50,000
233	Federal Govt., Provincial Govt., Local Govt., Company, AOP	Brokerage or commission paid	10.0% F
233-A	Stock Exchanges Registered in Pakistan	Commission on purchase and sale of shares: Purchase of shares. Sale of shares. Trading/Sale of shares. Markup and commission of Badla transactions.	0.01% F 0.01% F 0.01% F 10.0% F
234	Person collecting motor vehicle tax	Goods transport vehicle with different registered laden weights. Passenger transport vehicles plying for hire with different registered seating capacity. Private motor cars with different engine capacity	Rs.1,200 to Rs.36,000 Rs.25 to Rs.100 per seat Rs.750 to Rs.8,000
234-A	Person preparing the bills	Gas bill of a compressed Natural Gas Station	4% F
235	Person preparing the bills	Commercial / Industrial consumer of electricity. Bill amount up to Rs. 20,000	Rs.60 to Rs.1,500

		Bill amount exceeding Rs. 20,000	10.00 %
236	Person preparing the bills	Telephone Bill other than mobile bill where the amount of monthly bill exceeds Rs. 1,000. Mobile Phone & prepaid Cards for Telephone.	10.00 % of amount exceeding 1,000 10%F

F= Full and Final Discharge of Tax

- All payments are liable to withholding tax without any monetary threshold except for supply of goods and services with limits of Rs.25,000 and Rs. 10,000 respectively U/S 153;
- Import of Cars under CBU condition and fertilizer by their manufacturers;
- Tax deducted under clauses (a), (b) and (d) of section 151 and 153, shall be final tax liability of all tax payers except manufacturers and companies in certain conditions;
- Tax deducted on dividend received by a company shall not be a final liability;
- Tax deducted from electricity consumed, is treated as minimum tax of such persons other than companies.

Exemptions, rebates and other benefits

The Second Schedule to the Income Tax Ordinance, 2001 deals with exemptions and rebates etc.

- Exemption from total income
- Reduction in tax rates
- Reduction in tax liability
- Exemption from specific provisions.

Exemptions for Modarabas

The Modaraba enjoys special tax benefits, which are as follows:

- Income (except income from trading activity) of a Modaraba is exempt from tax provided that not less than ninety percent of the profits in the year as reduced by the amount transferred to a

mandatory reserve are distributed among the Modaraba certificate holders;

- It is taxed at a reduced rate of 25% as compared to 35 % applicable to companies.

Depreciation and Amortization

Third Schedule to the Income Tax Ordinance, 2001 prescribes the rates of depreciation for various assets. It also provides for the following depreciation and amortization allowances:

- Initial depreciation Allowance at 50%
- First year Allowance at 90%
- Amortization of pre-commencement expenditure at 20%.

Treaties for avoidance of double taxation

Pakistan has entered into treaties for avoidance of Double Taxation with different countries. These agreements are executed to avoid the fiscal loss of both countries.

Capital Value Tax

A tax on the capital value of the assets, to be called the capital value tax, shall be payable by every individual who acquires an immoveable property or right to use thereof for more than twenty year or purchase of modarba certificate or a registered instrument of redeemable capital as defined in the Companies Ordinance 1984, or shares of public listed company.

Rate of Tax

Immoveable property, (other than commercial property and residential flats), situated in urban area, measuring at least one kanal or 500 square yards whichever is less:

Where the value of immoveable property is recorded	2% of the recorded value
Where the value of immovable property	Rs. 50 per square yard of

is not recorded	the land area
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Commercial immovable property of any size situated in urban area:

Where the value of immovable property is recorded	2% of the recorded value
Where the value of immovable property is not recorded	Rs. 50 per square yard of the landed area

Residential flats with covered area measuring 1500 sq. feet and above:

Where the value of immovable property is recorded	2% of the recorded value
Where the value of immovable property is not recorded	Rs. 50 per square yard of the landed area

Purchase of certificates

Purchase of Modarba certificates or any instrument of redeemable capital as defined in the companies ordinance, 1984 or shares of a public company listed on a registered stock exchange in Pakistan	0.02% of the purchase value
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Indirect Taxes

The detail of indirect tax statutes is provided below:

Sales Tax

The VAT-mode Sale Tax has become a salient feature of the country's tax policy. Sales Tax Act 1990 forms the legal frame work for the operation and collection of sales tax. The "Collectorate of Sales Tax" a division of the Federal Board of Revenue (FBR) is the regulatory authority in this regard.

Sales tax is payable on monthly basis at the rate of 16% of the value of supplies net of the amount of input tax i.e. paid on purchases. The following persons are required to obtain the Sales tax registration:

- A manufacturer not being a cottage industry
- A retailer whose value of supplies in any period during the last twelve months exceeds five million rupees
- An importer
- A wholesaler (including dealer) and distributor
- A person required, under any other federal law or Provincial law, to be registered for the purpose of any duty or tax collected or paid as if it were a levy of sales tax to be collected under the Act
- A commercial exporter, who intends to obtain sales tax refund against his zero-rated supplies.

The Government promotes the sales tax registration and it is a must for doing business with most of Government departments, Corporations and large Companies. To solicit such business a manufacturer, service provider or retailer may obtain voluntary registration at the time of commencing the business.

Custom Duty

The Customs Act, 1969 (the Act) was promulgated on 8th March 1969. The Act consolidated and amended the laws relating to the levy and collection of customs duties and other allied matters. The Act along with Custom Rules, 2001 provides the legal framework for customs duties which presently are levied on the following goods:

- Goods imported into Pakistan
- Goods which are brought from any foreign country and are transhipped or transported, without payment of duties, from one custom station to another
- Goods brought in bond from one customs station to another.

The rates of duty vary from item to item and are provided in section 18 of the Act.

Federal Excise Duty

The Federal Excise Act, 2005 provide the legal framework to address the issues related to Federal Excise Duty. The Federal Excise Duty is a federal

charge and it is levied and collected on excisable goods and services of the following categories:

- Goods which are produced or manufactured in Pakistan;
- Goods which are imported into Pakistan;
- Such goods as the Federal Government may, by notification in the official Gazette specify, are produced or manufactured in the non-tariff areas and are brought to the tariff areas for sale of consumption therein;
- Service provided in Pakistan including the services originated outside but rendered in Pakistan.

The Excise duty is levied at the rate of fifteen per cent except the goods and services provided in the First Schedule. However, the Government now intends to gradually withdraw central excise duty from a number of items and restricts it only to five or six non-essential items.

8. Accounting

Accounting Profession

The Institute of Chartered Accountant of Pakistan (ICAP) is the professional body which represents the accountancy profession at national and international level. ICAP is also responsible for the continuous development of accounting profession in the country.

Auditing Requirement

Auditing the accounts of the company is compulsory under the Companies Ordinance 1984. Companies prepare their financial statements based on historical cost as per provision of Companies Ordinance 1984. All companies are required to get their financial statements audited by a Chartered Accountant who is a member of the Institute of Chartered Accountants of Pakistan (ICAP). However, a company that has share capital below three million rupees may get their financial statements audited by a Cost and Management Accountant who is a member of the Institute of Cost and Management Accountants of Pakistan (ICMAP).

Financial statements are the responsibility of the management and the auditor only expresses an opinion regarding the true & fair view of the financial statements. A financial statement consists of following components:

- Balance sheet
- Profit and Loss Account
- Cash Flow Statement
- Statement of Changes in Equity
- Notes to the account.

Accounting Standards and Principles

Financial statements of listed companies are presented according to the requirements of the fourth schedule to the Companies Ordinance, 1984 while financial statements of all other companies are presented according to the fifth schedule to the Companies Ordinance, 1984. ICAP considers and adopts the International Accounting Standards (IASs) and SECP notifies their application in preparation of financial statements of companies. At present, all International Accounting Standards (IASs) issued by International Accounting Standards Board have been adopted and notified subject to few modifications.

9. UHY firms in Pakistan

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10. UHY offices worldwide

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