

# DOING BUSINESS

IN PAKISTAN

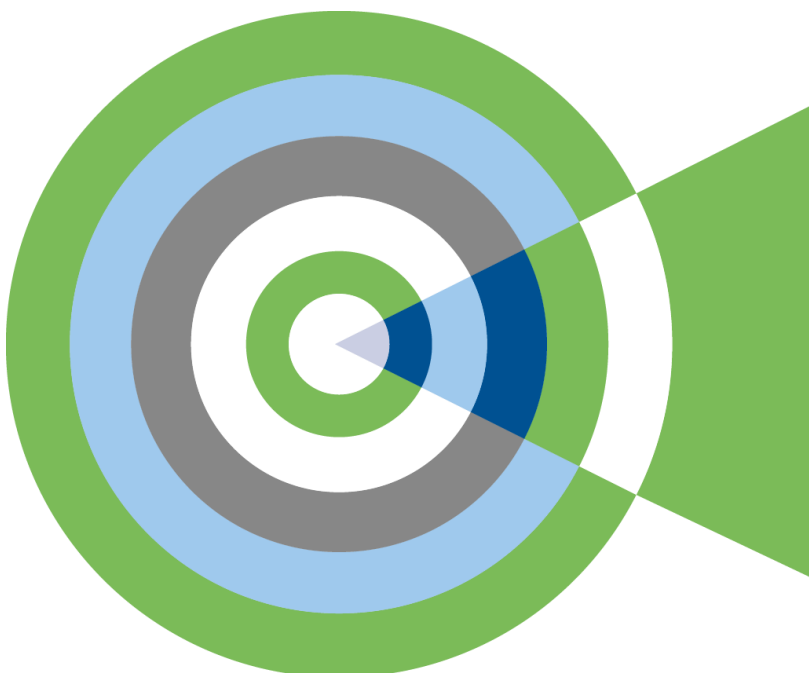


The network  
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business

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# 1 – INTRODUCTION

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UHY is an international organisation providing audit, accountancy, business management and consultancy services through financial business centres in around 90 countries worldwide. Business partners work together throughout the network to conduct transnational 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 a business operation in Pakistan has been provided by the office of UHY's representative there:

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Information in the following pages has been updated so that it is effective at the date shown, but inevitably it is 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 November 2017.

We look forward to helping you do business in Pakistan.

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## 2 – BUSINESS ENVIRONMENT

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### 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 a parliamentary form of government. The prime minister is the head of government and is elected by the National Assembly. The president is the head of the federation and 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 a few modifications. The High Court and Supreme Court of Pakistan are the highest forums 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.

### GEOGRAPHICAL LOCATION

Pakistan covers an area approximately 796,095 kilometres square, equal to the land areas of France and the United Kingdom combined.

Pakistan has a 1,046km coastline along the Arabian Sea and the Gulf of Oman in the south and land borders of 6,774 km in total (2,430km with Afghanistan, 523km with China, 2,912 km with India and 909km with Iran). The country shares a marine border with Oman, and is separated from Tajikistan by the cold, narrow Wakhan Corridor.

Pakistan occupies a geopolitically important location at the crossroads of South Asia, the Middle East and Central Asia.

### THE DOMESTIC MARKET

#### POPULATION

Pakistan has a multicultural and multi-ethnic society. Pakistan is the sixth most populous country in the world, behind Brazil and ahead of Bangladesh. Pakistan has a current population of approximately 207.774 million in 2017, with a growth rate of 2.4%.

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 an estimated population of over 14.9 million in 2017, Karachi is also the sixth most populous city in the world.

95% of the country's population is Muslim, making Pakistan the second largest Muslim country in the world and an important member of the Organisation 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

The international time of Pakistan is Greenwich Mean Time + 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 the rupee and the acronym used for the currency is PKR.

#### THE ECONOMY

Pakistan has a semi-industrialized economy, which mainly encompasses textiles, chemicals, food processing, agriculture and other industries. It is the 26th largest economy of the world.

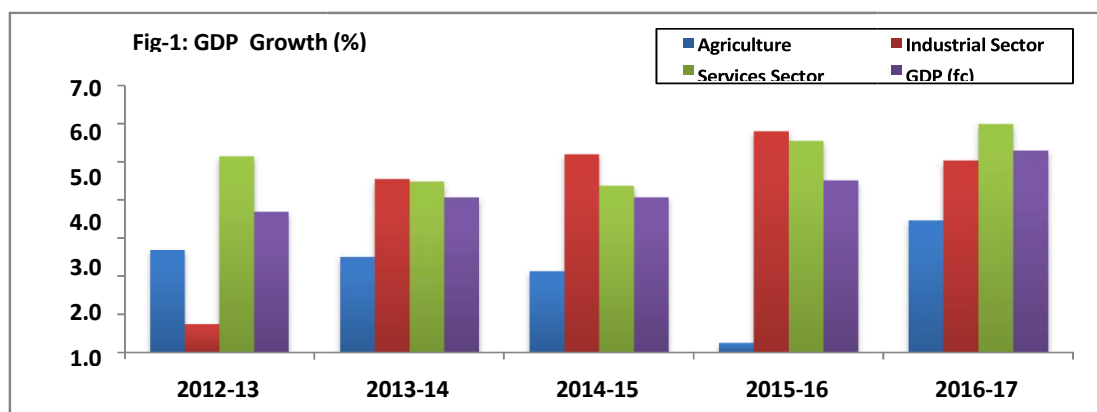
The World Bank (WB) and International Finance Corporation's flagship report 'Ease of Doing Business 2018' ranked Pakistan 147 among 190 countries around the globe. Pakistan ranks higher than Bangladesh which is at number 177. (The top five countries are New Zealand, Singapore, Denmark, Korea and Hong Kong)

Pakistan has seen a noticeable economic turnaround over the last few years due to the implementation of a comprehensive economic revival programme. Key areas of reforms include fiscal consolidation through improved public financial management and tax administration, energy restructuring of energy sector including capacity enhancement, divestment through strategic private partnerships and strengthening of regulatory framework. A visible improvement has been witnessed during 2016-17 due to pro-growth policies, especially in agriculture, industrial and services sector.

Pakistan's economy has maintained the recovery path, GDP growth accelerated to 5.28 percent in 2016-17 against the growth of 4.5 percent recorded in the last year. The growth is projected to grow even higher to the extent of 6% for the year 2017-18. The results of first quarter show that the target would be achieved easily.

In the year 2016-17, the agriculture sector grew by 3.46 percent against the growth of 0.27 percent in the last year. The industrial sector accelerated by 5.02 percent against the expansion of 5.80 percent in last year, while large scale manufacturing posted nominal growth of 4.61 percent against 3.29 percent last year. The services sector recorded a growth of 5.98 percent as compared to 5.55 percent last year. The commodity producing sector on the whole grew by 4.3 percent as compared to 3 percent last year. Fig-1 provides an overview of GDP growth over the previous years.

TABLE 1



The growth performance of all specified components of GDP over the last nine years is presented in table 2. This data indicates the relative importance of various sectors and sub-sectors and their relationship.

TABLE 2

Sector	GROWTH RATES (%)								
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 (F)	2015-16 (R)	2016-17 (P)
<b>A. Agriculture</b>	3.50	0.23	1.96	3.62	2.68	2.50	2.13	0.27	3.46
1. Crops	5.16	-4.16	0.99	3.22	1.53	2.64	0.16	-4.97	3.02
Important Crops	8.42	-3.74	1.50	7.87	0.17	7.22	-1.62	-5.47	4.12
Other Crops	0.54	-7.24	2.27	-7.52	5.58	-5.71	2.51	0.59	0.21
Cotton Ginning	1.31	7.29	-8.48	13.83	-2.90	-1.33	7.24	-22.12	5.59
2. Livestock	2.25	3.80	3.39	3.99	3.45	2.48	3.99	3.36	3.43
3. Forestry	2.57	-0.07	4.76	1.79	6.58	1.88	-12.45	14.31	14.49
4. Fishing	2.57	1.40	-15.20	3.77	0.65	0.98	5.75	3.25	1.23
<b>B. Industrial Sector</b>	-5.21	3.42	4.51	2.55	0.75	4.53	5.18	5.80	5.02
1. Mining and Quarrying	-2.46	2.75	-4.42	5.16	3.88	1.40	4.97	6.86	1.34
2. Manufacturing	-4.18	1.37	2.50	2.08	4.85	5.65	3.88	3.66	5.27
Large Scale	-6.04	0.41	1.66	1.13	4.46	5.46	3.28	2.94	4.93
Small Scale	8.57	8.47	8.51	8.35	8.28	8.29	8.21	8.20	8.18
Slaughtering	3.82	3.16	3.67	3.53	3.63	3.38	3.34	3.61	3.61
3. Electricity generation & distribution and Gas distribution	-12.11	16.65	63.86	1.41	-26.38	-0.74	13.48	8.43	3.40
4. Construction	-9.88	8.35	-8.56	3.08	1.08	5.96	7.26	14.60	9.05
Commodity Producing Sectors (A+B)	-0.88	1.76	3.21	3.09	1.73	3.49	3.63	3.03	4.26
<b>C. Services Sectors</b>	1.33	3.21	3.94	4.40	5.13	4.46	4.36	5.55	5.98
1. Wholesale & Retail trade	-2.99	1.79	2.11	1.66	3.53	4.77	2.60	4.25	6.82
2. Transport, Storage & Communication	5.04	2.96	2.42	4.61	4.03	3.90	5.07	4.82	3.94
3. Finance & Insurance	-9.65	-3.26	-4.22	1.64	8.32	4.31	6.35	6.12	10.77
4. Housing Services (OD)	4.03	4.01	4.02	3.99	4.00	4.00	3.99	3.99	3.99
5. General Government Services	5.59	7.97	14.06	11.06	11.32	2.86	4.82	9.72	6.91
6. Other Private Services	6.54	5.75	6.63	6.40	5.26	6.22	6.06	6.78	6.28
<b>GDP Growth Rate</b>	0.36	2.58	3.62	3.84	3.68	4.05	4.06	4.51	5.28

F : Final, R : Revised, P : Provisional

Source : Pakistan Bureau of Statistics

The Government of Pakistan has offered generous tax exemptions to Power generation and transmission line projects and other Manufacturing Industrial Undertakings. Similar incentives have been granted to technology companies wishing to do business in Pakistan and the same includes a combination of decade-plus tax holidays and zero duties on computer imports.

Major exports are textiles (garments, cotton cloth and yarn), rice, leather, sports goods, and carpets and rugs. The United States of America, United Arab Emirates, United Kingdom, Afghanistan and Saudi Arabia are the main export partners.

Major import commodities are petroleum, petroleum products, machinery, chemicals, transportation equipment, edible oils, pulses, iron and steel, and tea. The major import partners are China, United Arab Emirates, Saudi Arabia, Kuwait and Malaysia.

Cotton, wheat, rice and sugarcane are Pakistan's main crops while the main industries of the country are textiles, telecommunications, cement, power, commercial and investment banking, oil and gas, agro-based produce, sports goods, surgical goods, leather and leather goods, and cutlery.

Karachi, Lahore, Islamabad, Rawalpindi, Faisalabad, Hyderabad, Gujranwala, Multan and Sialkot are the country's key business centres. Karachi and Gwadar have sea ports while Lahore, Rawalpindi, Sialkot, Hyderabad, Multan, Faisalabad, Peshawar and Quetta have dry ports. Islamabad, Karachi, Lahore, Peshawar, Quetta and Sialkot have international airports.

The latest statistics regarding Pakistan's economy are shown in the table below.

**TABLE 3**  
*Economic data*

#### INDICATORS

GDP	USD 283 billion (2016)
GDP growth	5.28%
GDP per capita	USD 1,468
Inflation (CPI)	3.8% (October 2017)
Population below poverty line	29.5% (2017)
Labour force	61.04 million (2016)
Labour force by occupation	Agriculture 42.3%, Services 35.1%, Industry 22.6% (2015-16)
Unemployment	5.9% (2016)
Main industries	Textiles and apparel, Food processing, Pharmaceuticals, Construction materials, Chemicals, Cement, Mining, Machinery, Steel, Engineering, Software and hardware, Motorcycle and auto parts, Electronics, Paper products, Fertiliser, Shrimp
Ease of doing business rank	147 <sup>th</sup> (2018)

## 3 – FOREIGN INVESTMENT

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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 specialised 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 nationalisation 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 and 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.

### **FOREIGN DIRECT INVESTMENT (FDI)**

Foreign Direct Investment (FDI) in Pakistan stood at \$ 2,410.9 million during July-June 2016-17 as against \$ 2,305.3 million last year.

This is an increase of 4.6 percent. Food, Power, Construction, Electronics, Oil & Gas Exploration, financial services and Communication remained the major sector for foreign investors.

Due to better policies and initiatives of present Government, Pakistan is becoming a favourite destination for investors and investment climate is improving on fast track. China Pakistan Economic Corridor (CPEC) is an ongoing development mega project. This is the biggest overseas investment by China announced so far and the corridor is expected to be operational within three years. Government of China is investing over \$ 52 billion on various infrastructure and power generation projects. The corridor will be a strategic game changer in the region and would go a long way in making Pakistan a richer and stronger entity through its Special Economic Zones (SEZs). The investment on the corridor will transform Pakistan into a regional economic hub. The corridor will be a confidence booster for investors and attract investment not only from China but other parts of the world as well.

### **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 the original investment, profits earned on such investment and appreciation of capital.



**TABLE 4**  
*Foreign investment*

POLICY PARAMETERS	MANUFACTURING SECTOR	AGRICULTURE	INFRA-STRUCTURE & SOCIAL	SERVICES, INCL. IT & TELECOMS
Government permission	Not required except for specified industries *	Not required except for specific licences from concerned agencies		
Remittance of capital, profits, dividends, etc.	Allowed	Allowed		
Upper limit of foreign equity allowed	100%	100%	100%	100%
Minimum investment amount (USD million)	No	0.3	0.3	0.15
Customs duty on import of PME	5%	0%	5%	0–5%
Tax relief (IDA, % of PME cost)	25%	25%		
Royalty & technical fees	No restriction for payment of royalty & technical fees	Allowed as per the guidelines: initial lump sum up to USD 100,000, max rate 5% of net sales, initial period five years		

PME = Plant, machinery and equipment

IDA= Initial depreciation allowance

\* Specified Industries are:

- Arms and ammunitions
- High explosives
- Radioactive substances
- Security printing, currency and mint.

No new units for the manufacturing of alcohol, except, industrial alcohol

#### MAJOR INCENTIVES FOR INVESTMENT IN PAKISTAN

There are many reasons for foreigners to invest in Pakistan, including the following:

- 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 workforce
- Cost-effective managers and technical workers
- Large and growing domestic market
  - 180 million consumers with growing incomes
  - A growing middle-class moving to sophisticated consumption habits
  - 18<sup>th</sup> largest middle class in the world
- 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's economy:

- Oil & gas
- Energy and power
- Alternative energy
- IT projects
- Telecommunications
- Agriculture & agro-based projects
- Housing and construction
- Infrastructure
- Health projects
- Mining & minerals
- Services sector
- Automotive sector
- Leisure & hospitality
- 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 – SETTING UP A BUSINESS

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### LICENCE REQUIREMENTS

#### SPECIALISED BUSINESSES

In Pakistan, certain businesses have been declared specialised and in addition to corporate and tax requirements, a specific licence is required to commence such businesses. These businesses are banking companies, non-banking finance companies, security service provision companies, corporate brokerage houses, money exchange companies, a company which invests in arms and ammunition, security printing, currency and mint, and companies dealing with high explosives and radioactive substances.

Certain conditions e.g. as to minimum capital, qualification of directors, corporate structure and area of operations etc. are required to be complied for a company to obtain the proper licences. However, the conditions for granting of the licence may vary from business to business.

#### GENERAL BUSINESSES

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

### BUSINESS ORGANISATIONS

After complying with the requirements for a licence, a business can be established in any of the following forms set out below.

#### SOLE PROPRIETORSHIP

An individual may set up the business as a 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 firm notarised by the authorised Notary Public Magistrate. The Partnership Act 1932 is the legal framework for partnership firms. The firm needs to be registered with the respective registrar of firms in the area and also needs to ensure registration with the income tax and sales tax authorities.

#### COMPANIES

The Companies Act 2017 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 company:

- 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 into the following types:

- Public companies
- Private companies
- Not for profit organizations.
- Single member company.

## **FORMATION OF A COMPANY**

### **PUBLIC COMPANY**

Any three or more persons associated for any lawful purpose may, by subscribing their names to a Memorandum of Association (document which defines the objectives of the company) and complying with the registration requirements, form a public company.

There is no limit 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 have its shares and other securities listed on the stock exchange(s).

The name of every public limited company should include the word 'Limited' as the last part of the name.

### **PRIVATE COMPANY**

A private company can be established by any two 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 (the document defining the standard operating procedures of the company):

- Restricts the right to transfer its shares, if any
- Limits the number of its members to 50, 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 private company and companies limited by guarantee should respectively include the parenthesis and word 'Private' and 'Guarantee' before the last word 'Limited'.

### **NOT-FOR-PROFIT ORGANISATIONS**

The Commission may grant a licence to a not-for-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.

### **SINGLE MEMBER COMPANY**

Any person may form a single member company and would file with the registrar at the time of incorporation a nomination in the form as set out in Form S1 indicating at least one individual to act as nominee director of the company in the event of his death. All the requirements for incorporation of a private limited company shall mutatis mutandis apply to a single member company.

## 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 the 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 the Modaraba and business is executed by the Modaraba itself. For all legal and practical purposes both the management company and the Modaraba are separate entities.

A management company may operate more than one Modaraba. 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. The Modaraba has established itself as a well-understood Shariah-compliant form of business and has been practised as a form of business for the last 20 years. It also enjoys certain tax benefits which are discussed in the relevant section.

## FEE SCHEDULE

The schedule of fees for online registration of a company is as follows:

- For the registration of a company whose nominal share capital does not exceed PKR100,000, the fee shall be PKR 1,000
- For the registration of a company whose nominal share capital exceeds PKR 100,000, a fee of PKR 1,000 is payable, along with an additional fee determined according to the amount of nominal share capital as follows:
  - For every PKR100,000 of nominal share capital or part of PKR100,000, after the first PKR 100,000 up to PKR 10,000,000, there is a fee of PKR 500
  - For every PKR100,000 of nominal share capital or part of PKR100,000, after the first PKR 10,000,000 upto 5,000,000, there is a fee of PKR 400.
  - For every 100,000 rupees of nominal share capital or part of 100,000 rupees, after the first 5,000,000,000 rupees, upto any amount a fee of PKR 150

In case of manual registration, the fees above will be doubled, provided that, for the registration of a company, the total amount of fee to be paid shall not exceed PKR 40 million.

## LISTING OF COMPANIES AND SECURITIES (PUBLIC ISSUE)

The Pakistan Stock Exchange (PSX) is the stock exchange of Pakistan with trading floors in Karachi, Islamabad and Lahore. PSX was established on 11 January 2016 after the merger of individual stock exchanges of Karachi, Lahore and Islamabad. PSX is among the world's best performing stock markets. Between 2009 and 2015, it delivered a 26% return per annum. PSX was reclassified as a MSCI Emerging Market in May 2017. While the FTSE classifies PSX as a Secondary Emerging Market.

The Karachi Stock Exchange Limited (KSE), was Pakistan's largest and one of the oldest stock exchanges in South Asia by market capitalization, with many Pakistani consortium as well as overseas enterprises listings. Pakistan Stock Exchange also listed among 10 best stock markets in the world in 2015.

According to Bloomberg, the Pakistani benchmark stock market index is the third-best performer in the world since 2009. In June 2015, Khaleej Times reported that since 2009, the Pakistani equities delivered 26 percent a year for US dollar investors, making Karachi the best-performing stock exchange in the world.

The non-market capitalisation contributing sectors are as follows:

- Bonds
- Future contracts
- Non-equity instruments
- Stock index future contracts.

Pakistan Stock Exchange Limited PSX has drafted a booklet to help Non Resident Pakistanis (NRPs) and/or Foreign Investors (FIs) to use the said booklet as a reference document while seeking to invest in Pakistan's Equity Markets through opening a Special Convertible Rupee Accounts (SCRA) with SBP authorized dealers in Pakistan. The aforementioned draft can be accessed from the following link below.

The stock exchange regulations provide for certain reporting and other requirements. Some important regulations are in respect of the notice of board and shareholders' meetings, approval for the date of an annual general meeting of the company, reporting of the results and announcements of the dividends, payment of dividends at least once in five years and the 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 PKR 25,000 is payable.

#### FOREIGN INVESTORS IN PAKISTAN

A foreign investor may establish an independent business with any of the above-mentioned corporate structures. He/she can establish a sole proprietorship, can enter into partnership with any local person or foreigner and can even 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 aforementioned corporate structures, it can obtain registration with the Board of Investment – Government of Pakistan (the Board) for the opening of a branch office, marketing office or liaison office. The Companies Ordinance 1984 imposes certain restrictions on the operations of the enterprise.

The following plans and tax incentives are available to both investors and listed companies.

**FOREIGN INVESTOR - SPECIFIC:**

The foreign investors are freely allowed to operate in the capital market without any retention period. There are no restrictions on the extent of foreign ownership stake and also no limit for holding the shares for trading purposes. Funds invested in the capital market are freely transferable along with dividend income. Foreign investors are treated at par with local investors in tax treatment. However, the foreign investors are required to get themselves registered with State bank of Pakistan for the availability of above regime.

## 5 – LABOUR

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### 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 approved in 2010 is in force.

### CHILD LABOUR

Awareness of this problem provided the basis for the 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 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.'

The Government shall take legal as well as other measures to regulate and control the employment of children in certain occupations and processes considered hazardous and injurious to their health.

### MINIMUM WAGE

The minimum wage rate for unskilled & juvenile (14 years to 17 years) workers is Rs.15,000 per month in the provinces of Punjab, Balochistan and Khyber Pakhtunkhwa as well as the Islamabad Capital Territory. These minimum wage rates are applicable from 01 July 2017. The daily minimum wage for an 8 hour work day is Rs. 577 (and Rs.15,000 for 26 working days). Minimum wage for unskilled & juvenile workers (14 years to 17 years) is Rs.14000 per month in Sindh with effect from July 2017. The daily minimum wage Sindh is Rs. 538.46 (and Rs.14000 for 26 working days)

### 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 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 PKR100 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 PKR 500,000, shall pay to the Fund in respect of that year a sum equal to 2% of the higher of its total income (as declared under the Income Tax Ordinance 2001) or the profits as per the accounts
- A voluntary contribution
- Income from the investment made out of the fund
- Proceeds of loans raised by government bodies.

The Fund is utilised for the 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 companies. The Act applies to companies engaged in an industrial undertaking which fulfils the prescribed criteria. The amount of the 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. Contributions are payable monthly by the employer to the Employee Old Age Benefits Institute (the Institute) in respect of every person in insurable employment, at the rate of 5% of his/her wages.

This statute intends to provide security and benefits for old age to employees of industrial, commercial or other organisations covered by it. The Institute formed under it collects and receives contributions, donations, bequests and all other payments. It deals with pensions, invalidity pension, widows' pensions, old age grants and other benefits, out of the contribution payable to the Institute by every employer of an industry.

### **IMMIGRATION PROCEDURE**

#### **BUSINESS VISAS**

Missions abroad are authorised to grant a five-year validity (Multiple) visa within 24 hours to businessmen of 68 countries (see Table 5) on the Business Visa List (BVL) on the production of any of the following documents:

- A recommendation letter from the Chamber of Commerce & Industry of the respective country
- An invitation letter from a business organisation duly recommended by the concerned Trade Organisation/ Association in Pakistan
- A recommendatory letter by the Honorary Investment Counsellor of the Board Of Investment (BOI) / Commercial Attach posted at Missions abroad.

The duration of each stay is three months.

TABLE 5

*List of business friendly or BVL countries*

NO.	NAME OF COUNTRY	NO.	NAME OF COUNTRY
1	Argentina	35	Luxembourg
2	Australia	36	Malaysia
3	Austria	37	Malta
4	Azerbaijan	38	Mauritius
5	Bahrain	39	Mexico
6	Belgium	40	Morocco
7	Bosnia	41	Netherlands
8	Brazil	42	New Zealand
9	Brunei	43	Norway
10	Canada	44	Oman
11	Chile	45	Philippines
12	China	46	Bulgaria
13	Cyprus	47	Poland
14	Czech Republic	48	Portugal
15	Denmark	49	Qatar
16	Egypt	50	Romania
17	Estonia	51	Russia
18	Finland	52	Saudi Arabia
19	France	53	Singapore
20	Germany	54	Slovakia
21	Greece	55	Slovenia
22	Hungary	56	South Africa
23	Sri Lanka	57	South Korea
24	Iceland	58	Spain
25	Indonesia	59	Sweden
26	Iran	60	Switzerland
27	Ireland	61	Thailand
28	Italy	62	Turkey
29	Japan	63	Turkmenistan
30	Jordan	64	UK
31	Kazakhstan	65	U.S.A.
32	Kuwait	66	UAE
33	Latvia	67	Ukraine
34	Lithonia	68	Vietnam

Missions abroad can grant a one-month validity and stay (Multiple) entry visa to the businessmen of another 107 countries subject to the production of the aforementioned requisite documents from the applicant's own country or place of legal residence by the Ambassador / High Commissioner / Head of Mission on the following criteria:

- The applicant belongs to a company of international repute, and / or
- Fulfils the criteria laid down for List 'A' countries in respect of valid sponsorship from Pakistan.

The possible conversion of a business visa into a work visa (and vice versa) has been discontinued.

#### VISA ON ARRIVAL

A visa on arrival (VOA) for 30 days validity and stay will be given to businessmen of the 68 countries listed on the Business Friendly List (BVL) on production of any of the following documents:

- A recommendation letter from the Chamber of Commerce & Industry of the respective country of the foreigner
- An invitation letter from a business organisation duly recommended by the concerned Trade Organisation/ Association in Pakistan
- A recommendatory letter by an Honorary Investment Counsellor of the BOI / Commercial Attach posted at Missions abroad.

#### WORK VISA

Pakistan missions abroad are authorised to grant a work visa to foreign expatriates on the recommendations of the BOI for one year (Multiple) validity, extendable on a yearly basis in Pakistan. The BOI will process work visa applications expeditiously within four weeks and recommend them to the Ministry of Interior for authorisation of the visa to the concerned Mission.

A visa committee under the Chairmanship of the Secretary of the Board of Investment approves the work visa cases received by the BOI through companies working in Pakistan. Visa advice is however issued by the Ministry of Interior to Pakistan Missions abroad as per the recommendation of the BOI in cases of fresh entry visas and to the Regional Passport Offices in case of visa extension.

Extension of a three-month provisional work visa, on application, recommended by the BOI would be endorsed by the Regional Passport Offices instead of the Ministry of Interior.

#### VISA EXTENSION

The Regional Passport Offices at Islamabad, as well as those in the provincial capitals, have been empowered to allow one-year extensions in business visas on submission of the following business-related documents:

- Valid passport / business visa
- Documents showing substantial investment / export / import during last year
- Registration letter from the Tourism Division (in cases of hotel businesses)
- Other business documents (i.e letter from the Chamber of Commerce & Industry / Registrar of Company, partnership deed, article of association etc.)

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

## 6 – TAXATION

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The Federal Board of Revenue (the Board) is the regulatory authority responsible for the management of the taxation system and is engaged in the collection of taxes under various structures.

Taxes, duties and other levies can be classified in two categories – Direct taxes (Income Tax) and Indirect taxes (Sales Tax, etc.)

### INCOME TAX

The Income Tax Ordinance 2001 and Income Tax Rules 2002 provide the legal framework for 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

The Income Tax Ordinance 2001 classifies entities as follows for the levy of tax:

- An individual
- A company or association of persons incorporated, formed, organised or established in Pakistan or elsewhere
- The Federal Government, a foreign government, a political subdivision of a foreign government, or a public international organisation.

An ‘association of persons’ includes a firm, a Hindu undivided family, any artificial person and anybody of person formed under foreign law, but does not include a company.

The Income Tax Ordinance 2001 provides a broader definition of ‘company’ which includes the following:

- A company as defined in the Companies Act 2017
- 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 which relates to the incorporation of companies
- A trust, a co-operative society or 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 provincial government
- A local government in Pakistan or a small company as defined in the Ordinance.

### SOURCES OF INCOME

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

- Salary
- Income from property
- Income from business
- Capital gains
- Income from other sources.

Taxable income in a specific category means the income as reduced by allowable deductions. The net income from each category is added together 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 classifications, once advised, may also change.

Examples of incomes under presumptive tax regime include:

- Imports of goods (other than for self-consumption of manufacturers)
- Dividends received
- Profit on debt (except for companies)
- Prizes from a prize bond or winnings from raffles, lotteries, quizzes or crossword puzzles, or prizes offered by companies for the promotion of sales
- Payments to non-residents

Payments received for goods and services (certain exclusions apply in cases of companies).

## RESIDENT STATUS

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

An individual is a 'resident individual' if he/she is present in Pakistan for 183 days or more in a tax year or if he/she 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 the company is situated wholly in Pakistan at any time during the tax year. A registered firm, un-registered firm and association of persons, are considered resident when management and control is situated (either wholly or partly) in Pakistan.

## TAX YEAR AND FILING OF RETURN

The tax year is a period of twelve months ending on 30 June every year (hereinafter referred to as the 'normal tax year').

All taxpayers, except companies, are required to file their return of income for the tax year by the 30 September (at the latest) immediately following the close of that tax year.

Companies are required to file their return of income for the tax year on 30 September or 31 December, depending upon the type of tax year.

A normal tax year consists of a period of twelve months from 1 July to 30 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 years'. Accordingly, the last date for filing the return of income is also different than that 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 and the Commissioner may, by an order, allow him to use a special tax year.

## TAX RATES

### NON-SALARIED INDIVIDUALS AND ASSOCIATION OF PERSONS (AOPs)

Tax rates for these individuals are shown in the table below.

TABLE 6

*Tax rates for non-salaried individuals and AOPs*

NO.	TAXABLE INCOME	RATE OF TAX.
1.	Where taxable income does not exceed Rs. 400,000;	0%
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 500,000;	7% of the amount exceeding Rs. 400,000
3.	Where the taxable income exceeds Rs. 500,000 but does not exceed Rs. 750,000;	Rs. 7,000 + 10% of the amount exceeding Rs.500,000
4.	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,500,000;	Rs. 32,000 + 15% of the amount exceeding Rs. 750,000
5.	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs. 2,500,000;	Rs. 144,500 + 20% of the amount exceeding Rs. 1,500,000
6.	Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 4,000,000;	Rs. 344,500 + 25% of the amount exceeding Rs. 2,500,000
7.	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000;	Rs. 719,500 + 30% of the amount exceeding Rs. 4,000,000
8.	Where the taxable income exceeds Rs. 6,000,000;	Rs. 1,319,500 + 35% of the amount exceeding Rs. 6,000,000

### SALARIED INDIVIDUALS

Tax rates for these individuals are shown in Table 7.

TABLE 7

*Tax rates for salaried individuals*

NO.	TAXABLE INCOME	RATE OF TAX.
1.	Where taxable income does not exceed Rs. 400,000;	0%
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 500,000;	2% of the amount exceeding Rs. 400,000
3.	Where the taxable income exceeds Rs. 500,000 but does not exceed Rs. 750,000;	Rs. 2,000 + 5% of the amount exceeding Rs.500,000
4.	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,400,000;	Rs. 14,500 + 10% of the amount exceeding Rs. 750,000

5.	Where the taxable income exceeds Rs. 1,400,000 but does not exceed Rs. 1,500,000;	Rs. 79,500 + 12.5% of the amount exceeding Rs.1,400,000
6.	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs. 1,800,000;	Rs. 92,000 + 15% of the amount exceeding Rs. 1,500,000
7.	Where the taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,500,000;	Rs. 137,000 + 17.5% of the amount exceeding Rs. 1,800,000
8.	Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 3,000,000;	Rs. 259,500 + 20% of the amount exceeding Rs. 2,500,000
9.	Where the taxable income exceeds Rs.3,000,000 but does not exceed Rs.3,500,000;	Rs. 359,000 + 22.5% of the amount exceeding Rs. 3,000,000
10.	Where the taxable income exceeds Rs.3,500,000 but does not exceed Rs.4,000,000;	Rs. 472,000 + 25% of the amount exceeding Rs. 3,500,000
11.	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs. 7,000,000;	Rs. 597,000 + 27.5% of the amount exceeding Rs. 4,000,000
12.	Where the taxable income exceeds Rs. 7,000,000;	Rs. 1,422,000 + 30% of the amount exceeding Rs. 7,000,000

### COMPANIES

The tax rates for companies are as shown below:

Small companies	25%
Banking Companies	35%
Other than a banking Company	31%

### SPECIAL RULES FOR TAXATION OF CERTAIN BUSINESSES

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

- The fourth schedule to the Ordinance provides the rules for the taxation of profits and gains of insurance businesses
- 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 banking companies.
- The eighth schedule to the Ordinance provides the rules for the computation of capital gains on listed securities.

### WITHHOLDING TAX

Sections 148–169 and sections 231A–236B of the Income Tax Ordinance 2001 provide for deduction of tax on certain payments. The ordinance provides for a complete procedure for the withholding tax system. The nature of such payments and pertinent rates of tax deduction are provided for as set out below.

### COLLECTION/ DEDUCTION OF TAX AT SOURCE

The provisions contained in the Ordinance which deal with collection and recovery of tax, advance tax and deduction of tax at source shall not apply to the income from capital gains which are taxable under the eighth schedule, except as provided therein.

TABLE 8

Ordinance provisions; F = Full and final discharge of tax

Section	Responsible	Nature of Payment	Rates	
			Filer	Non-Filer
148	Collector of Customs	Industrial Undertaking importing remittable steel (PCT Heading 72.04); Persons importing potassic fertilizers in pursuance of ECC cabinet's decision No. ECC-155/12/2004 dated 09-12-2004;	1%	1.5%
		Industrial Undertaking being filer importing plastic raw material (PCT heading 39.01 to 39.12)	1.75%	8%
		Persons importing Urea Manufacturers and importing items covered under SRO 1125(I)/2011 dated 3112-2011.		
		Persons importing pulses	2%	3%
		Commercial importers importing items covered under notification no. SRO 1125(I)/2011 dated December 31, 2011	3%	4.5%
		Commercial Importers being filer importing plastic raw material (PCT heading 39.01 to 39.12)		
		• Companies	4.5%	8%
		• Other than companies	4.5%	9%
		Ship Breakers on import of ships	4.5%	6.5%
		Industrial undertaking not covered above	5.5%	8%
Companies not covered above	5.5%	8%		
Persons not covered above	6%	9%		



149	Employer	<p>Salary</p> <p>Compensation on termination of employment including Golden Handshake etc.</p> <p>Directorship fee and fee for board meetings</p>	<p>Effective rate</p> <p>Average rate of tax for 3 years (Opt.)</p> <p>20%</p>	
150 & 236S	Every person paying dividend and dividend in specie	<p>Company engaged in power generation or supplying coal to power generation projects;</p> <p>All Dividends, including Specie dividends;</p> <p><b>Exceptions:</b> Dividend by Collective investment scheme or RIET scheme or a mutual fund:</p> <p><b>Individuals &amp; AOPs:</b> Stock Fund Money Market, etc.</p> <p><i>Rate of tax shall be 10% if the amount of dividend received from a money market mutual fund does not exceed Rs. 2.5 million.</i></p> <p><b>Companies:</b> Stock Fund Money Market, etc.</p> <p><i>In case of a stock fund if dividend receipts of the fund are less than capital gains;</i></p> <p>Tax on dividend received from a development REIT scheme set up on 30th June 2018 for construction of residential building, shall be taxed at reduced rate of 50% for three years from June 30, 2018.</p>	<p>7.5%F</p> <p>15%F</p> <p>12.5%F 12.5%F</p> <p>12.5%F 25%F</p> <p>12.5%</p>	<p>7.5%F</p> <p>20%F</p> <p>12.5%F 15%F</p> <p>12.5%F 25%F</p> <p>12.5%</p>

151	All Payers, Banking Company, Financial Institutions, Federal Govt., Provincial Govt., Local Authority, Finance Society.	Yield on an account, deposit or certificate under National Saving Scheme or Post Office Saving Account Profit on account of deposits. Profit on any security issued. Profit on any bond, certificate, debenture, security or instrument of any kind.	10%	10% If profit < Rs. 500,000 (OR) 17.5% If profit is > Rs. 500,000
152	All Payers.	<b>Payment to non-resident for:</b>  Construction, assembly or installation contracts / all other contracts including services rendered and contracts for Advertisement by Satellite Channels.	7%F	13%F
		Royalty / Fee for Technical Services. Insurance and Reinsurance premium Advertisement services by media person relaying from outside Pakistan Others.		15%F 5%F 10% 20%
		<b><u>Payment to Permanent Establishment of a Non Resident for:</u></b> Sale of Goods (Companies) Sale of Goods (Non companies)  <b><u>Rendering or providing of Services:</u></b> Transport Services Other than Transport (Companies)  Other than Transport (Non companies)  <b><u>On execution of contracts:</u></b> Payment to a person Payment to Sports persons	4% 4.50%	7% 7.75%
152A	All Payers	Payment to a non-resident person for foreign produced commercial for advertisement.	20%F	

153(1)	Federal Govt., Company, A.O.P. Constituted by or under Law, Foreign Contractor or Consultant or Consortium or Joint Venture or an AOP & Individual having Turnover of Rs. 50 M or above, Non Profit Organization, Person registered under Sales Tax Act, 1990.	<p><b>Payments to Companies:</b></p> <p>Sale of goods 4% 7%</p> <p>Rendering of Services 8%M 14.5%M</p> <p>Execution of Contracts 7%F 12%F</p> <p>Electronic and print media 1.5%F 12%F</p> <p>Distributors of fast moving consumer goods 2% 2%</p> <p><b>Payment to other taxpayers:</b></p> <p>Sale of Goods 4.5% 7.75%</p> <p>Rendering of Services 10% 17.5%</p> <p>Execution of Contracts 7.5% 12.5%</p> <p>Payment to Sports Person 10% 10%</p> <p>Electronic and print media 1.5% 15%</p> <p>Distributors of fast moving consumer goods 2.5% 2.5%</p> <p><b>All Taxpayers:</b></p> <p>Rice, Cotton seeds oil, Edible oil 1.5%F 1.5%F</p> <p>Transportation 2%M 2%M</p>		
153(2)	Every exporter or Export house.	Services rendered in connection with export of goods.		1%F
154	Authorized foreign exchange dealers/ Banking Company, EPZ Authority, Direct Exporter/ Export House, Collector of Customs.	<p>Export proceeds on supply of goods, on realization of foreign exchange on exports, export of goods by an industrial undertaking within EPZ and payment to Indirect Exporter for a contract by direct exporter.</p> <p>Commission due to an indenting commission agent.</p>		1%F  5%F

155	Federal Govt., Provincial Govt. Local Govt., Company, Non Profit Organization, Diplomatic Mission, Private Education Institution, Boutique, Beauty Parlour, Hospital, Clinic, Maternity home, Individuals & AOPs paying Gross Rent of Rs. 1.5million or above in a year.	<b>Payment of Rent to Individuals and AOPs;</b>  Rent does not exceed Rs. 200,000.  Rent exceeds Rs. 200,000 but does not exceed Rs. 600,000  Rent exceeds Rs. 600,000 but does not exceed Rs. 1,000,000.  Rent exceeds Rs. 1,000,000 but does not exceed Rs. 2,000,000.  Rent exceeds Rs. 2,000,000.	Nil	
			5% of amount exceeding Rs. 200,000  Rs. 20,000 plus 10% of amount exceeding Rs. 600,000.  Rs. 60,000 plus 15% of amount exceeding Rs. 1,000,000.  Rs. 210,000 plus 20% of amount exceeding Rs. 2,000,000.	
		<b>Payment of Rent to Companies</b>	15%	17.5%
156	All Payers.	Prize on Prize bonds or cross word puzzle.	15%F	25%F
		Winning prizes from raffle, lottery, quiz etc.	20%F	20%F
156A	All Payers.	Commission/Discount on Petroleum products to Petrol pump operator.	12%F	17.5%F
231A	Banking Companies	Cash withdrawals exceeding Rs. 50,000 in a day.	0.3%	0.6%
231AA	Banks, NBFI, Exchange Companies, Authorized dealers of foreign exchange.	Sale against cash of any instrument including DD, Pay Order, CDR, STDR, SDR, RTC or any instrument of bearer nature or on receipt of cash on cancellation of any of these instruments exceeding Rs. 25,000.	0.3%	0.6%

231B	Motor Vehicle Registering Authority, Manufacturer of Motor Cars of Jeeps.	Engine capacity between 850cc and 3000cc above		
		At first registration	Rs. 7,500 to Rs. 250,000	Rs. 10,000 to Rs. 450,000
		At subsequent registration	NIL to Rs. 62,500	Rs. 5,000 to Rs. 300,000
		At the time of leasing of motor vehicle	NIL	4%
		Rate of tax shall be reduced by 10% each year from the date of first registration.		
233	Federal Govt., Provincial Govt., Local Govt., Company, AOP constituted by or under the Law.	Brokerage or commission paid to:		
		Advertisement Agents	10%F	15%F
		Life Insurance Agents where commission received is less than Rs.0.5 million per annum	8%F	16%F
		Persons running online market place Others	5%F 12%F	5%F 15%F
233A	Stock Exchanges Registered in Pakistan.	Commission on purchase and sale of shares:		
		Purchase of shares.	0.02% of purchase value	
		Sale of shares.	0.02% of sale value	
233AA	NCCPL	Margin Financing etc	10%	

234	Person collecting motor vehicle tax.	<p>Goods transport vehicles with different registered laden weights.</p> <p>Transport vehicle with laden weight of 8120 Kg or more after a period ten years from the date of first registration.</p> <p><b><u>Passenger Transport Vehicles:</u></b></p> <p>Seating Capacity: Four or more person but less than ten persons</p> <p>Ten or more persons but less than twenty persons</p> <p>Twenty persons or more.</p> <p><b><u>Other Private Motor Vehicles:</u></b> Engine Capacity between 1000cc to 2000cc and above</p> <p><b><u>Where motor vehicle tax collected in lump sum:</u></b> Engine Capacity between 1000cc to 2000cc and above</p>	<p>Rs. 2.50/Kg</p> <p>Rs. 1200</p> <p>Rs. 50/Seat</p> <p>Rs. 100/Seat</p> <p>Rs. 300/Seat</p> <p>Rs. 800 to Rs. 10,000</p> <p>Rs. 10,000 to Rs. 120,000</p>	<p>Rs. 4/Kg</p> <p>Rs. 1200</p> <p>Rs. 100/Seat</p> <p>Rs. 200/Seat</p> <p>Rs. 500/Seat</p> <p>Rs. 1,200 to Rs. 30,000</p> <p>Rs. 10,000 to Rs. 240,000</p>
234A	Person preparing bills.	Gas bill of a compressed Natural Gas Station	4% F	6% F
235	Person preparing Electricity bills.	<p>Commercial / Industrial consumer of electricity: Gross bill amount Rs. 0 to Rs. 400</p> <p>Gross bill amount Rs. 401 to 20,000</p> <p>Gross bill amount exceeding Rs. 20,000</p>	<p>0%</p> <p>Rs. 80 to Rs. 1500</p> <p>12 % for commercial &amp; 5% for industrial user</p>	
235A	Person preparing Domestic Electricity bills.	<p>Bill amount is less than Rs. 75,000</p> <p>Bill amount is Rs. 75,000 or more</p>	<p>0%</p> <p>7.5%</p>	

235B	Person preparing Electricity bills.	Tax on Electricity consumed by steel melters etc	Rs. 1/- per unit	
236	Person issuing bill or selling units through electronic medium.	Monthly Telephone bill exceeding Rs. 1,000.  In case of subscribers of Internet, Mobile Phones & Prepaid telephone cards or sale of units in electronic medium or whatever form.	10% of amount exceeding Rs. 1,000.  12.5% of bill or sale price of internet	
236A	Person Making Sale by auction or Auction by Tender.	Gross sale price of Property / Goods	10%	15%
236B	Person Preparing Air ticket.	Purchase of domestic air ticket.	5%	
236C	Person Registering or Attesting Transfer of Immovable Property	Seller / Transferor of immovable property on the gross amount of consideration received.	1%	2%
236D	Owner, Operator etc of a marriage hall, hotel, restaurant, club etc.	On arranging or holding a function.	5%	
236F	PEMRA	<b><u>Cable TV Operators in respect of:</u></b>  Issuance of License for distribution services  Renewal of License  IPTV, FM Radio, MMDS, Mobile TV, Mobile Audio, Satellite TV Channel and lending rights  Permission fee or renewal fee for screening of foreign TV drama or play, other than English language.	Rs.7,500 to Rs. 875,500  Rs. 10,000 to Rs. 900,000  20% of Permission Fee or Renewal Fee.  50%	

236G & 236H	Manufacturer, Distributors/ Dealers/ Wholesalers Commercial Importer of Electronics, Sugar, Cement, Iron & Steel Products, fertilizers, Motorcycles, Pesticides, Cigarettes, Glass, Textiles, Beverages, Paint or Foam sectors.	<b><u>Sales to Distributors:</u></b>			
		Fertilizers	0.7%	1.4%	
		Other than Fertilizers	0.1%	0.2%	
		<b><u>Sale to Retailers:</u></b>			
	Electronics	1%	1%		
	Others	0.5%	1%		
236I	Education Institutions	Annual fee exceeding Rs. 200,000.	5%		
236J	Market Committee	Dealers, Commission agents or arhatis at the time of issuance or renewal of Licenses.	Rs. 10,000 to Rs. 5,000		
236K	Fed Govt., Provincial Govt., Local Govt. or Foreign diplomatic commission in Pakistan.	<b><u>On purchase/transfer of immovable property:</u></b>			
		Value up to to Rs. 4 million.	0%	0%	
		Value Exceeding Rs. 4 million.	2%	4%	
236L	Every airline issuing air ticket for journey originating from Pakistan	<b><u>Purchase of international air ticket:</u></b>			
		First/Executive class (per person)	Rs. 16,000/-		
		Others excluding economy (per person)	Rs. 12,000/-		
		Economy (per person)	Rs. 0/-		
236M & 236N	Listed / Un-listed Companies	On issuing bonus shares to its shareholders.	5%F		
236P	All Banking Companies	Banking transaction otherwise than cash exceeding Rs. 50,000 in a day.	0%	0.6%*	



236Q	All Payers	Payments to a resident person for use or right to use industrial, commercial and scientific equipment and rent of machinery.	10%F	
236R	Banks, Financial Institutions, Foreign Companies or any person responsible for remitting foreign currency.	Educational Related Expenses Remitted Abroad	5%	
236U	Insurance Company	General insurance premium	Nil	4%
		Life insurance premium if exceeding Rs 0.3 million per annum	Nil	1%
		Others	Nil	0%
236V	Provincial authority collecting royalty per metric ton	On the value of minerals extracted, produced, dispatched and carried away from the licensed or leased areas of the mines.	0%	5%

\* The rate of tax u/s 236P shall be 0.4% till 13 September, 2017.

F = Full and Final Discharge of Tax.

M = Minimum 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 in aggregate for a tax year U/S 153.
- Tax deducted u/s 153 on payments received on account of supply of goods by listed Company and a Manufacturer Company shall not be covered under Final Tax Regime.

#### DEPRECIATION AND AMORTISATION

The third schedule to the Income Tax Ordinance 2001 prescribes the rates of depreciation for various assets. It also provides for the following depreciation and amortisation allowances:

- Initial depreciation allowance:
  - Plant & Machinery 25%
  - Building 15%
- Amortisation of pre-commencement expenditure 20%
- Normal depreciation rates

– Building	10%
– Plant & Machinery, Vehicles, Furniture, Ships, Technical or Professional books	15%
• Computer Hardware	30%
• Mineral oils	
– Underground	100%
– Offshore	20%
• A ramp built to provide access to persons with disabilities not exceeding Rs.250,000	100%

#### EACH.TREATIES FOR AVOIDANCE OF DOUBLE TAXATION

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

#### CAPITAL VALUE TAX

A tax on the capital value of assets, called the capital value tax, is payable by every individual who acquires an immovable property or right to use a property for more than 20 years or on the purchase of a Modarba certificate or a registered instrument of redeemable capital as defined in the Companies Act 2017, or shares of a public listed company.

TABLE 9

*Rates of tax*

Residential immovable property (other than flats) situated in urban areas, measuring at least 500 square yards or one kanal (whichever is less) or more		
i) Where the value of immovable property is recorded	4% of the recorded value	Whichever is higher
ii) Where the value of immovable property is not recorded	PKR 100 per square yard of the landed area	
iii) Where the value of immovable property is a constructed property	PKR 10 per square feet of constructed area in addition to the value worked out above	
Residential flats of any size situated in urban areas		
i) Where the value of immovable property is recorded	4% of the recorded value	Whichever is higher
ii) Where the value of immovable property is not recorded	PKR 100 per square feet of the covered area of the immovable property	
Commercial immovable property of any size situated in urban areas		
i) Where the value of immovable property is recorded	4% of the recorded value of the landed area	Whichever is higher

ii) Where the value of immovable property is not recorded	PKR 100 per square feet of landed area	
iii) Where the value of immovable property is a constructed property	PKR 10 per square feet of the constructed area in addition to the value worked out above	

## INDIRECT TAXES

### SALES TAX ON GOODS

The VAT-mode sales tax on goods has become a salient feature of the country's tax policy. The Sales Tax Act 1990 forms the legal framework for the operation and collection of sales tax on goods. 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 a monthly basis at the rate of 17% of the value of supplies net of the amount of input tax i.e. paid on purchases. The following persons are required to obtain sales tax registration:

- A manufacturer (not a cottage industry)
- Retailers having value of supplies of over 5 million rupees, in any tax period during the last 12 months
- 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 a 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 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.

### SALES TAX ON SERVICES:

Sales tax on services is levied & collected by provinces separately. Sales tax on services is payable on a monthly basis on value of supplies net of input tax i.e. paid on purchases. Following are the standard rates of sales tax applicable on majority of services in different provinces/territories of Pakistan:

SR. NO.	PROVINCES	STANDARD SALES TAX RATE
1	Baluchistan	15%
2	Sindh	13%
3	Punjab	16%
4	KPK	15%
5	Islamabad Capital Territory	16%

### CUSTOMS DUTY

The Customs Act 1969 (the Act) was promulgated on 8 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 contained in section 18 of the Act.

### FEDERAL EXCISE DUTY

The Federal Excise Act 2005 provides the legal framework to address the issues related to Federal Excise Duty. 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 specify, by notification in the official Gazette, as produced or manufactured in the non-tariff areas and brought to the tariff areas for sale of consumption therein
- Services provided in Pakistan including services originated outside but rendered in Pakistan.

The excise duty is levied at the rate of 15% except for goods and services provided in the first schedule. However, the government intends to gradually withdraw central excise duty from a number of items and restrict it to only to five or six non-essential items.

## 7 – ACCOUNTING & REPORTING

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The Institute of Chartered Accountants 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 a company is compulsory under the Companies Act 2017.

Companies prepare their financial statements based on historical cost as per the provisions of the Companies Act 2017.

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 which 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 Act 2017. Financial statements of all other companies are presented according to the fifth schedule of the Companies Act 2017.

ICAP considers and adopts the International Financial Reporting Standards (IFRSs) for the preparation of the financial statements of companies and the Securities Exchange Commission of Pakistan (SECP) ensures compliance to these standards.

At present, all International Financial Reporting Standards (IFRSs) issued by the IFRS Foundation and International Accounting Standards Board have been adopted and notified subject to a few modifications.

## 8 – UHY REPRESENTATION IN PAKISTAN

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### CONTACT DETAILS

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Fax: +92 (42) 35403599  
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### CONTACTS

Liaison contact: Naeem Sheikh  
Position: Senior Partner  
Email: [sheikhnaeem@uhyhnco.com](mailto:sheikhnaeem@uhyhnco.com)

### SOCIAL MEDIA CONNECTIONS

- Facebook: <https://www.facebook.com/uhyhassannaeeemandco>

Year established: 2006

Number of partners: 5

Total staff: 122

### OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

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Fax: +92 (51) 2873430

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Shahrah-e-Faisal, Karachi, Pakistan.  
Tel.: +92 (213) 34322551-3

### BRIEF DESCRIPTION OF FIRM

The mission of UHY Hassan Naeem & Co., Chartered Accountants is to achieve a leadership position in domestic and international markets by providing services to our clients for their business needs with the highest standards of integrity, quality and efficiency. We strive to create an environment to promote group spirit and commitment to excellence amongst our partners and staff, thereby providing opportunity for growth of individual members. A dedicated team of professionals specializing in different areas is the key to our success. Clients are constantly kept abreast of our rapidly changing business environment through counselling, publications, circulars and memos all year round. The firm provides a wide range of accounting, tax and business advisory services to clients ranging from high-net worth individuals and owner-managed businesses, to public limited companies and multinational organisations. We have been assigned Category B by State Bank of Pakistan. Auditing Firms falling in this category are eligible to conduct audit of the Banks/DFIs having total assets (net of contra items) up to Rs.50 billion or number of branches up to 99. UHY Hassan Naeem & Co. is currently based in Lahore, Islamabad and Karachi with Satellite offices in Faisalabad and Multan. Firm also have future plans for growth into other major cities of Pakistan.

### SERVICE AREAS

Audit, accountancy, bookkeeping and outsourcing services

Company secretarial services  
 Corporate and personal taxation  
 Project feasibility studies  
 Arbitration and business resolution  
 Corporate finance – acquisitions, mergers, sales, fundraising and flotation  
 Financial services and personal wealth management advice  
 Forensic accounting and litigation support  
 FSA compliance services  
 Management Consultancy  
 Information Technology consulting  
 Human Resource Management & Outsourcing  
 General business advice and strategic planning  
 Trusts and private client services  
 Sales tax compliance and litigation settlements  
 Tax audits  
 Financial advisory services  
 Corporate restructuring & reorganization

#### **PRINCIPAL OPERATING SECTORS**

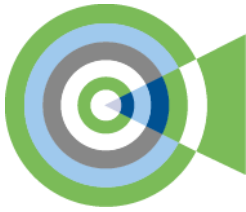
Accounting  
 Banking  
 Chemicals  
 Educational Services  
 Financial Services  
 Food & beverages manufacturing  
 Health Care  
 Hotels  
 HR services  
 Information Technology (IT) & services

#### **LANGUAGES**

English, Urdu, Punjabi.

#### **CURRENT PRINCIPAL CLIENTS**

Akram Cotton Mills  
 Athar Marketing Network  
 Allahdin Power (Pvt) Ltd.  
 Allahdin Steel & Rolling Mills  
 Alliance Resources (Pvt) Ltd.  
 Beaconhouse University Project  
 B.I.P. Consultants W.L.L., Bahrain  
 Cargo Solutions  
 Center of Economic Research in Pakistan  
 Children Hospital



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