Doing Business Guide

Pakistan

1st Edition

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About This Booklet

This booklet has been produced by Junaidy Shoaib Asad, Chartered Accountants (JSA) for the benefit of their clients and associate offices worldwide who are interested in doing business in Pakistan.

Its main purpose is to provide a broad overview of the various things that should be taken into account by organisations considering setting up business in Pakistan.

The information provided is not exhaustive and – as underlying legislation and regulations are subject to frequent changes – we recommend that anyone considering doing business in Pakistan or looking to the area as an opportunity for expansion should seek professional advice before making any business or investment decision.

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While every effort has been made to ensure the accuracy of the information contained in this booklet, no responsibility is accepted for its accuracy or completeness.

Contents

Pakistan at a Glance

Historical Perspective

The idea of a separate Muslim State first emerged in the 1930s and was formally seconded in 1940 by Muhammad Ali Jinnah, leader of the Muslim League, whose 'Lahore Resolution' called for the creation of an independent state in regions where Muslims constituted a majority. At the end of World War II, the UK moved with increasing urgency to grant India independence. The Congress Party and the Muslim League, however, could not agree on the terms for a constitution or establishing an interim government. In June 1947, the British Government declared that it would bestow full dominion status upon two successor states – India and Pakistan. Under this arrangement, the various princely states could freely join either India or Pakistan. Accordingly, on 14 August 1947 Pakistan, comprising West Pakistan with the provinces of Punjab, Sindh, Baluchistan, and Khyber- Pakhtunkhwa (formerly Northwest Frontier Province), and East Pakistan with the province of Bengal, became independent.

Geography and Climate

Known as the gateway to South Asia, Pakistan's eastern regions are located on the Indian tectonic plate and the western and northern regions on the Iranian plateau and Eurasian land plate. Apart from the Arabian Sea coastline, Pakistan's land borders total 6,774 km with Afghanistan to the northwest, China to the northeast, India to the east and Iran to the southwest.

Pakistan's climate varies by region: the north and north-western high mountainous ranges are extremely cold in winter, while the summer months of April to September are very pleasant. The plains of the Indus valley are extremely hot in summer, with cold and dry weather in winter. The southern coastal strip has a moderate climate. Rains are monsoonal in origin and fall late in the summer. Due to the rainfall and high diurnal range of temperature, humidity is comparatively low (except on the coast).

Language and Population

Over 60 languages are spoken in Pakistan. English is the official language, and is used in official business, government, and legal contracts; Urdu is the national language.

The population of Pakistan as of 1 July 2014 was over 185 million, making it the world's sixth most populous country with a growth rate of 1.6% (2014).

Demographic Profile

Figure 1: Breakdown of Population by Age 2014

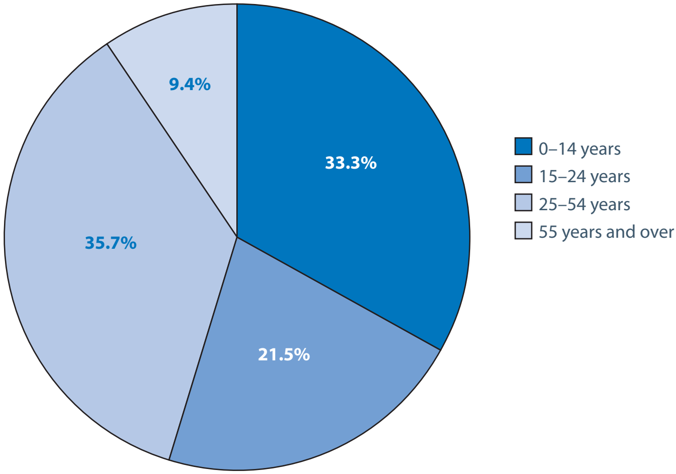


Table 1: Gender, Employment Status, Urbanisation 2014

	Male	Female	Total
Gender	95,158,323	89,974,602	185,132,926
Employment status			
Employed	50,227,000	13,579,100	63,806,000
Unemployed	–	–	3,730,000
Urbanisation	19.02%	17.98%	37.00%

Source: http://www.worldometers.info/world-population/pakistan-population

Political System

Pakistan has a parliamentary democratic government with three branches of government:

- Executive President (Chief of State), Prime Minister (Head of Government)
- Legislative Bicameral Parliament (100-seat Senate, 342-seat National Assembly)
- Judicial Supreme Court, Provincial High Courts, Federal Islamic (or Sharia) Court.

The political subdivisions are:

- The five provinces of Punjab, Sindh, Baluchistan, Khyber-Pakhtunkhwa and Gilgit – Baltistan
- The seven federally administered tribal areas: Bajaur, Mohmand, Khyber, Kurram, Orakzai, North Waziristan and South Waziristan
- The Pakistani-administered portion of the disputed Jammu and Kashmir region (Azad Kashmir and the Northern Areas).

Transportation

Roads

Pakistan has over 250,000 km of roads, including 22 national highways and 14 motorways; many more are planned or under construction. Pakistan's motorways are part of its National Trade Corridor Project, which aims to link the country's three Arabian seaports (Karachi, Bin Qasim and Gwadar) with the rest of the country, as well as with neighbouring Afghanistan, Central Asia and China.

Railways

Pakistan Railways has a highly developed network: over 8,000 km of tracks connect virtually the entire country from north to south and east to west. Rail is an important mode of transportation in Pakistan, facilitating the large-scale movement of people and freight. The government encourages investment from the private sector, which pays track access charges to operate passenger and freight trains.

Air Transport

Pakistan has 42 airports, including five international airports. Karachi, the gateway of Pakistan, is an important port of call on the world air and sea routes. The airside facilities have also been upgraded at most of the airports for heavy aircraft.

In addition to the national flag carrier, Pakistan International Airlines (PIA), private airlines (Shaheen Air International, Airblue and Indus Air) also operate successfully on international routes, with Air Indus offering local services. Pakistan also has 19 heliports.

Ports

Karachi

Pakistan's largest and busiest seaport, Karachi is situated close to the main global shipping routes. Managed through Karachi Port Trust (KPT), it handles about 60% of the nation's cargo (26 million tons per annum). At present the Karachi Port has 30 dry berths and three liquid berths. The two container terminals are capable of handling Post Panamax ships with up to six Gantry Cranes. The Pakistan Deep Water Container Port has 10 berths that can accommodate Super Post Panamax container ships. Further deepening of the port is planned to enhance facilities. The expected completion time was December 2014; almost 80% of the work is completed (as of January 2015).

Port Qasim

Situated on the coast of the Arabian Sea some 50 km southeast of Karachi, and well served by modern transport connections, Port Qasim is Pakistan's first multipurpose industrial deep-sea port and has played a key role in Pakistan's economic renewal. Major expansions are planned, with Foreign Direct Investment (FDI) of around US$ 1.22 billion.

Gwadar

Gwadar's location on the southwest coast of Pakistan gives it a strategic position between three important regions: the oil-rich Middle East, heavily populated South Asia, and the economically emerging and resource-laden region of Central Asia. The port is set to become a regional hub of trade and investment activities, with the government declaring Gwadar port a Special Economic Zone. Facilities will include offshore banking, factories, warehouses and storage; tourism will be promoted in the area; and an export-processing zone will be set up. A five-star hotel is already operational.

Energy

Oil and Gas

In June 2014, Pakistan's Ministry of Petroleum and Natural Resources announced that oil production was now estimated at 100,000 barrels per day – an increase of 30–40% in just a year.

Natural gas is another major energy asset for Pakistan, the major gas-producing fields being Sui in Baluchistan and Mari in Sindh.

Oil & Gas Development Corporation Ltd (OGDCL)

The national oil and gas company of Pakistan, OGDCL is the local market leader in terms of reserves, production and acreage, and is listed on all three stock exchanges in Pakistan and on the London Stock Exchange.

Electricity

Various public-sector organisations, including the Pakistan Water and Power Development Authority (WAPDA), are involved in the generation, transmission and distribution of electricity in Pakistan.

The Pakistan Electric Power Company (Private) Ltd (PEPCO) is managing the transition of WAPDA from a bureaucratic structure to a corporate, commercially viable and productive organisation with 12 distinct autonomous entities: three for generation, one for transmission and eight for distribution.

Electricity generation and transmission has been opened to the private sector, with various incentives offered to investors via the government's Private Power Infrastructure Board. The National Electric Power Regularity Authority (NEPRA) has been created to introduce transparent and judicious economic regulation, based on sound commercial principals, to Pakistan's electric power sector. NEPRA reflects the country's commitment to free enterprise and determination to improve the quality of life for its people by offering opportunities for growth and development.

Coal

Following the discovery of a large coalfield at Thar, the government has framed a mineral policy to cover the procedural aspects and fiscal/monetary incentives available for investment in mineral extraction projects. The discovery of low-ash, low-sulphur lignite coal reserves at Sindh in the Tharparkar desert has also increased both domestic and foreign development interest.

Sindh Coal Authority is an exclusive agency to harness Sindh's coal resources. Its functions include exploration of coal including development, mining, processing, utilisation, research and development, and coordination of infrastructure development, as well as conducting problem-oriented research, developing indigenous technology and promoting foreign investment. Lahr Coal Development Authority (LCDC) has prime responsibility for the development and commercial exploitation of coal deposits of Lakhra Area, Sindh.

Economy

Pakistan's economy is the 26th largest in the world in terms of purchasing power, and the 44th largest in absolute dollar terms. Pakistan has a semi-industrialised economy, which mainly encompasses textiles, chemicals, food processing, agriculture and other industries. Growth poles of Pakistan's economy are situated along the Indus River; the diversified economies of Karachi and Punjab's urban centres coexist with less developed areas in other parts of the country.

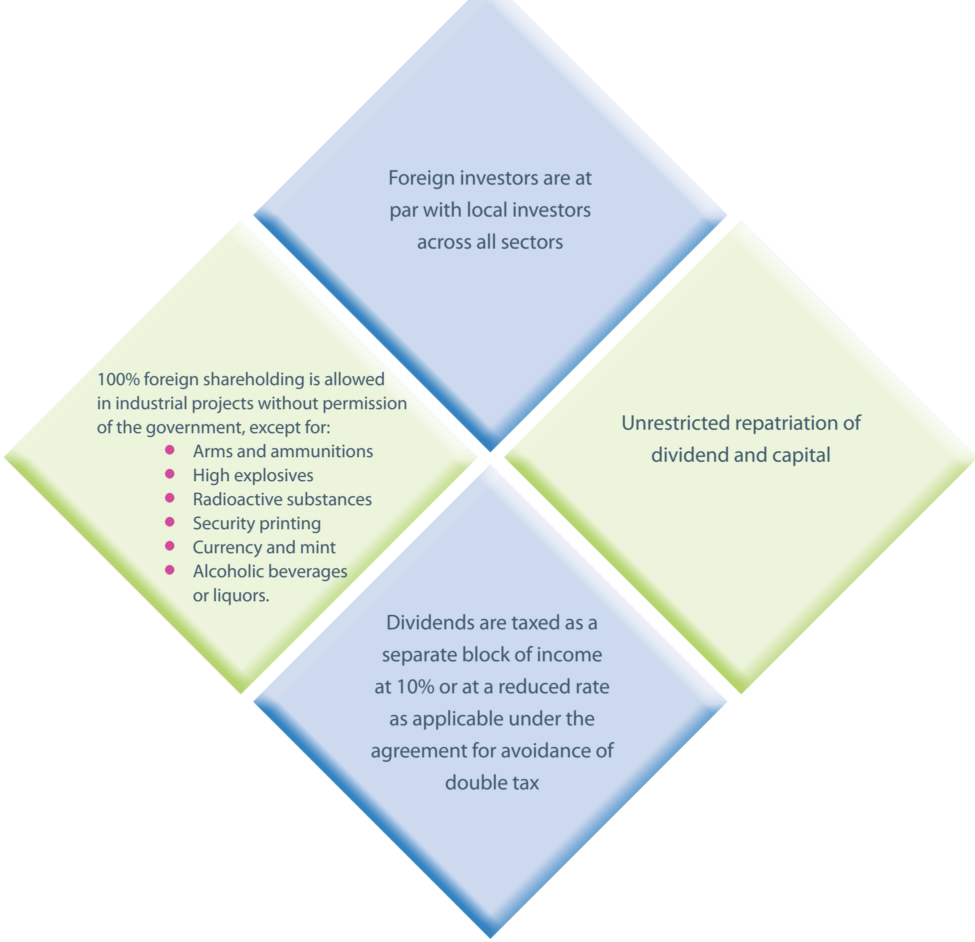
Table 2: Economic Comparison of Pakistan 1999–2013

INDICATORS	1999	2007	2009	2013
GDP (Gross Domestic Product)	US$ 75 billion	US$ 160 billion	US$ 185 billion	US$ 222.7 billion
GDP purchasing power parity (PPP)	US$ 270 billion	US$ 475.5 billion	US$ 545.6 billion	US$ 594.6 billion
GDP per capita income	US$ 450	US$ 925	US$ 1,250	US$ 1,555
Revenue collection	US$ 4.92 billion	US$ 11.42 billion	US$ 12.4 billion	US$ 18.28 billion
Foreign reserves	US$ 1.96 billion	US$ 16.4 billion	US$ 14 billion	US$ 11.01 billion (June 2013)
Exports	US$ 7.5 billion	US$ 18.5 billion	US$ 18.45 billion	US$ 24.80 billion (2012 est.)
Textile exports	US$ 5.5 billion	US$ 11.2 billion	US$ 9.774 billion	US$ 13.1 billion
The Karachi Stock Exchange (KSE 100-Index)	US$ 5 billion at 700 points	US$ 75 billion at 14,000 points	US$ 26.5 billion at 9,000 points	US$ 51.06 billion at 21,005.69 points
Foreign direct investment	US$ 1 billion	US$ 8.4 billion	US$ 4.6 billion	US$ 1.45 billion

External debt and liabilities	US$ 39 billion	US$ 40.17 billion	US$ 50.1 billion	US$ 59.78 billion
Poverty level	34%	24%	17.2%	22.3%
Literacy rate	45%	53%	54%	57%
Development programmes	US$ 1.29 billion	US$ 8.39 billion	US$ 7.36 billion	US$ 10.89 billion (2013-2014 budget)

Sources: Business Recorder, Daily Times, The Nation, Pakistan Economist, Pakistan Textile Journal, Weekly Economic Digest, State Bank of Pakistan, Board Of Investment, Government of Pakistan, Karachi Stock Exchange, Ministry of Finance, World Bank, UNESCO.

Figure 2: Incentives for Foreign Investors



Opportunities for International Investors

Why Invest in Pakistan?

Geo-Strategic Location

Pakistan's strategic location makes the country an important gateway to the energy-rich Central Asian states, the financially liquid Gulf States and the economically advanced Far East.

Trained Workforce

Pakistan has a large workforce of hardworking and intelligent people who are fluent in English. The country's engineers, bankers, lawyers and other professionals have established a reputation for expertise both domestically and internationally, while the returning expatriate population bring substantial international experience.

Economic Outlook

Pakistan is one of the fastest-growing economies of the world, with an ever-expanding middle class. FDI has risen sharply from an average of US$ 300 million in the 1990s to almost US$ 1.5 billion (as reported by the State Bank of Pakistan for the fiscal year 2012–13). Fiscal deficit has declined from an average 7% of GDP in the 1990s to around 3% in recent years, while FOREX reserves have increased fourfold in the past decade.

Investment Policies

Recognising its central importance to economic development, the government has taken wide-ranging steps to liberalise its inward investment regime and has succeeded in attracting substantial amount of foreign investment. The current investor-friendly investment policies have been tailored to suit investor needs. The consistent liberalisation, deregulation, privatisation, and facilitation policies make Pakistan an ideal sanctuary for foreign investment.

Financial Markets

The financial markets in Pakistan mainly accommodate the financing needs of the government, public enterprises and priority sectors. The current development of an improved infrastructure in the country's stock exchanges reflects careful planning and a streamlined capital market modernisation process.

A Glimpse of Pakistan's Investment Policy

Liberal Investment Policy

- All economic sectors open to FDI
- Equal treatment of local and foreign investors

- 100% foreign equity allowed
- No government sanction required
- Attractive tax/tariff incentives package
- Remittance allowed of royalties, technical and franchise fees, capital, profits and dividends.

Foreign Investment Fully Protected

- Foreign Private Investment (Promotion & Protection) Act, 1976
- Protection of Economic Reforms Act, 1992
- Foreign Currency Accounts (Protection) Ordinance, 2001.

Areas of Investment for Corporate Agriculture Farming (CAF)

- Land development/reclamation of barren land, desert and hilly areas for agriculture purpose and crop farming
- Reclamation of waterfront areas and creeks
- Crops, fruits, vegetables, flower farming and integrated agriculture (cultivation and processing of crops)
- Processing of agriculture products
- Modernisation and development of irrigation facilities and water management
- Plantation and forestry
- Dairy, small ruminants (sheep, goat) and other livestock farming.

Privatisation Programme

The Government of Pakistan (GOP) attaches high priority to privatisation as part of its dynamic policy for restructuring and revitalising the national economy. Recognising the private sector as the engine for economic growth, the government is conscious of the need to make privatisation in Pakistan both attractive and rewarding for potential investors.

The Privatisation Commission (PC) is entrusted with selling federal government property such as its shares in banks, industrial units, public utilities, oil and gas companies, transport companies, and infrastructure service providers in an open and transparent manner. In addition to the sale of shares or assets, it may also offer concessions or the right to operate publicly owned assets, without selling the assets themselves. The process of privatisation of public sector enterprises has been legally protected by the Economic Reforms Act, 1992.

Potential Sectors for Investment

Automobile Sector

The automobile industry is one of the fastest-growing sectors in Pakistan, with a growth of 17% during financial year 2012–13; it contributes 3% of the nation's GDP. The industry was highly regulated until the early 1990s, when major Japanese manufacturers entered the market. Pakistan has the potential to become a manufacturing and exporting hub of the auto industry for renowned original equipment manufacturers (OEMs) of the world.

Textile Sector

Pakistan's textile sector is by far the most important sector of the economy, contributing 8.5% to the GDP and employing around 40% of the industrial labour force. As the single largest manufacturing sector for Pakistan, the textile industry has contributed towards exports, employment, foreign exchange earnings, investment and value added. The textile trade is classified into two broad categories: textiles (yarn, fabric and other materials), and clothing (ready-made garments).

The All Pakistan Textile Mills Association (APTMA) is the premier national trade association of the textile spinning, weaving, and composite mills representing the organised sector in Pakistan.

The export refinance has been subsidised with a reduced rate of 5% and allocation of Rs. 2.5 billion.

All textile machinery imports are zero-rated to encourage new investments.

Duty drawbacks of 1–3% for a 2-year period for value-added textile exports to help the sector offset its direct and indirect costs.

Energy Sector

Faster economic growth, rising disposable income, higher availability of consumer finance, double-digit growth of large-scale manufacturing, and higher agricultural production have all resulted in higher demand for power. Through incentives and a liberal power policy, the government has encouraged the private sector to invest in the energy sector.

The current energy mix for power generation is heavily dependent on thermal power generation (approx. 70% of generation mix) and the focus is to encourage investments in indigenous resources to generate cheap electricity such as coal, nuclear, hydropower, solar and wind energy.

The 'Financing Power Plants using Renewable Energy' scheme is available to foreign investors subject to compliance with certain legal requirements (including sponsor's equity to be brought in from abroad as foreign investment).

Petroleum Sector

Given the importance of petroleum in global energy supplies, the consumption of energy in a country can be considered a direct measure of its rate of economic development.

The Ministry of Petroleum and Natural Resources was created in April 1977 to ensure availability and security of sustainable supply of oil and gas for economic development and strategic requirements of Pakistan and to coordinate development of natural resources of energy and minerals. Pakistan Petroleum Limited (PPL) is the pioneer of natural gas industry in Pakistan.

Fertiliser Sector

The fertiliser sector in Pakistan currently comprises 10 companies – four in the public sector, six private. Fertiliser production is concentrated in nitrogenous fertilisers, which represent 85% of all fertilisers produced in the country because the main raw material (natural gas) is cheaply available. This sector has shown a growth in profitability due to improved availability of gas.

Chemical Sector

The chemical sector is one of the five highest growth and globally traded sectors. In Pakistan, this sector is in its initial stages of development and offers many opportunities for investors. Major subsectors are inorganic chemicals, plastic and resins, organic chemicals, dyestuffs and pigment, leather-tanning chemicals, agro-based chemicals, fertilisers, paint and varnishes, oleo chemicals, pesticides, detergents, cosmetics, toiletries and essential oils and pharmaceuticals. Major exported products include bottle grade PET, matches, pharmaceuticals, phthalic anhydride, gelatine and plastics.

Pharmaceutical Sector

With a market size of around US$ 1 billion, expanding at a rate of around 10–15% annually, Pakistan's pharmaceutical industry meets 80% of its domestic demand.

Rising life expectancy is expected to be reflected in increased healthcare spending over the coming years, and Pakistan is predicted to become the 11th largest pharmaceutical market globally by 2016. Pharmaceutical exports currently stand at around US$ 100 million, with the potential of crossing the US$ 1,000 million mark.

Pharmaceutical manufacture and trade in Pakistan is regulated through the Drug Act, 1976. Pakistan was the first of the world's developing countries to introduce Good Manufacturing Practices as a mandatory requirement.

Dairy Sector

Pakistan is the fourth largest producer of milk in the world, with a total production of 33 billion litres of milk a year from a total herd size of 27 million milk animals (buffaloes and cows). Representing more than the combined value of wheat and cotton, the dairy sector offers tremendous potential for growth; the government offers a number of initiatives in this direction.

Investment Opportunities

Pakistan is investment-friendly for the livestock sector, such as:

- Setting up large breeding farms
- Establishing milk collection, chilling centres and dairy processing
- Vaccine production, especially for foot and mouth disease, and veterinary pharmaceuticals
- Cattle feed mills
- Integrated meat production and processing
- Integrated poultry production and processing.

For more information, see http://www.pddc.com.pk.

Mining and Mineral Sector

Pakistan is endowed with significant mineral resources, which are efficiently regulated by the National Mineral Policy (introduced in 1995).

Exploration by government agencies, as well as by multinational mining companies and various regional geological surveys, has confirmed the country's promising potential for metallic and non-metallic mineral deposits: apart from copper, gold, silver, platinum, chromites, iron, lead and zinc, there are many industrial minerals such as multicoloured granite, marble and other high-quality dimensional stones suitable for export.

The vast potential of major reserves offers considerable opportunities for multinational companies to invest in this sector, which in the long run will benefit both the economy and investors.

Investment Opportunities

- Mining and establishing of rock salt-based chemical industries
- Mining/cutting and polishing of hard/soft dimension stone (granite, marble, limestone)
- Commissioning of coal-washing plants for up-gradation of indigenous coal for the processing industry
- Commissioning of fuller's earth from bentonite deposits
- Utilisation of low-grade iron ores for steel mill commissioning
- Coal-based power generation projects.

Marble and Granite Sector

Pakistan is very rich in minerals, with an estimated 350 million tons of marble and granite reserves to be found in a vast area from Karachi to Sachem Glacier.

There is considerable international demand for Pakistan's marble and granite, which is of finer quality than is being produced in other parts of the world. Indeed, the demand for natural stone has rapidly increased in the construction industry worldwide – currently about US$ 45 billion annually.

Housing and Construction

Housing and construction has been recognised as a priority industry by the government, which has developed a pragmatic National Housing Policy to revitalise this sector.

Local and foreign companies involved in real estate projects will not market these projects unless the title of the property is transferred in the name of a locally incorporated company and the 'Commencement of Business' certificate is issued by the Securities and Exchange Commission of Pakistan (SECP).

The House Building Finance Corporation (HBFC) is the country's leading finance institution for housing, providing affordable housing solutions to low- and middle-income population groups by encouraging new constructions in the small and medium housing (SMH) sector.

Information Technology

The IT industry is among the most dynamic sectors in Pakistan, with revenues growing by 30–40% year on year. Employing some 75,000 professionals, this industry consists of world-class providers of software, call centres, fixed-line and mobile phone, internet, telecommunications, computer hardware and many computer-related companies.

Tourism Sector

The tourism industry holds great promise for prospective investors. Pakistan is gifted with a rich and unique collection of majestic and rugged mountains, breath taking scenery, exciting deserts, warm waters, colourful traditions and hospitable people.

The Pakistan Tourism Development Corporation (PTDC) is developing strategies to promote tourism, including various joint ventures. More information is available at www.tourtopakistan.com.

Other Potential Sectors for Investment

- Leather
- Engineering
- Surgical supplies
- Sports goods
- Poultry
- Fisheries

- Processed food and beverages
- Tea cultivation and processing
- Paper and paper board
- Electrical capital goods
- Consumer durables
- Textile-related engineering
- Synthetic fibres
- Edible oil seeds
- Steel
- Alternate energy.

Business Entities

Types of Business Entity

There are three major legal forms of business in Pakistan:

- Sole Proprietorship
- Partnership
- Company.

Sole Proprietorship

In a sole proprietorship, an individual on their own account carries out the business or profession. There are no formalities for setting up a sole proprietary concern, except free registration with governmental authorities. If the number of employees exceeds five, then the Employee's Old Age Benefits Act, 1976 and Shops and Establishment Ordinance, 1969 become applicable.

Partnership

A partnership can be formed with two or more individuals and up to 20 partners (other than certain specified cases, such as partnership firms for law practices, accountancy firms or any other consultancy services); otherwise it is required to be registered as a company under the Companies Ordinance, 1984.

Under the Income Tax Ordinance, 2001, partnership firms are referred to as an Association of Persons (AOP).

There are two types of partnership firms: unregistered and registered. A registered partnership has certain advantages; it must be registered with the Registrar of Firms under the provisions of the Partnership Act, 1932.

Company

A company is a legal entity formed under the Companies Ordinance, 1984. It can be formed with or without share capital.

A company having share capital may be formed as:

- A company limited by share
- A company limited by guarantee
- An unlimited company
- A statutory company.

Company Limited by Share

The liabilities of its members are limited to the extent of their shares in the paid-up capital of the company. These companies may further be classified as public limited and private limited companies.

A public limited company can be unlisted or listed, and can be formed by at least three people (for an unlisted company) or seven people (for a listed company). Such persons are required to subscribe their names to the company's memorandum and articles of association. The word 'Limited' is used as the last word of its name.

Private limited companies may be formed by one or more persons by subscribing their names to the company's memorandum and articles of association. A private limited company, by its articles of association:

- Restricts the right to transfer its share
- Limits the number of its members to 50
- Prohibits any incitation to the public to subscribe for shares or debentures of the company.

A private limited company is required to use the words '(Private) Limited' as the last words of its name.

Single Member Company

A private limited company can also be formed by a single member; such a company is called a single member company (SMC).

Company Limited by Guarantee

This is a company having the liability of its members limited by its memorandum to such amounts as the members may respectively undertake to contribute to the capital of the company in the event of its closure. A company limited by guarantee is usually formed on a non-profit basis. Companies limited by guarantee use the words '(Guarantee) Limited' as the last words of their name.

Unlimited Company

This is a company whose members have unlimited liability.

Statutory Company

This is a company formed by a private statute passed in the relevant jurisdiction – such as the Pakistan Industrial Development Corporation, Pakistan International Airlines, etc.

Other Corporate Legislation

Apart from Companies Ordinance, 1984, various other corporate legislations are in force regulating different aspects of corporate entities. These are described briefly below.

Banking Companies Ordinance, 1962

The establishment and operations of banking companies in Pakistan are governed by the Banking Companies Ordinance, 1962. In addition to banks, other financial institutions such as Modarabas (an Islamic form of financial institution), leasing companies, housing finance companies, investment banks and insurance companies (general and life) have also been allowed to be formed in the private sector.

Securities and Exchange Ordinance, 1969

The establishment and running of the stock exchanges, brokerage houses, central depository and credit rating agencies in Pakistan are regulated and governed by the Securities and Exchange Ordinance, 1969.

Competition Ordinance, 2007

The Competition Ordinance, 2007 dissolved the Monopoly Control Authority and set up the Competition Commission. Certain new concepts and practices were introduced for which there was no precedent in Pakistan and which affect commercial transactions taking place in, or related to, markets in Pakistan. Pre-merger notification and clearance must be obtained for any merger or acquisition that may substantially lessen competition by creating or strengthening a dominant position in the relevant market.

Non-Banking Financial Company (NBFC) Regulations, 2008

The NBFC Regulations aim to facilitate the operations of non-banking financial companies by putting in place risk mitigation measures to address the challenges posed by market conditions, safeguarding the interest of the shareholders. Procedure to establish business in Pakistan.

Figure 3: NBFC Regulations, 2008

Two or more persons associated form a private company
One person to form a single member company
Three or more persons associated form a public company

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Registration of private/public company

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Application for selection of a name

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Seeking the availability of name with the company Registrar

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Submission of required documents as laid down by the Companies Ordinance, 1984

↓

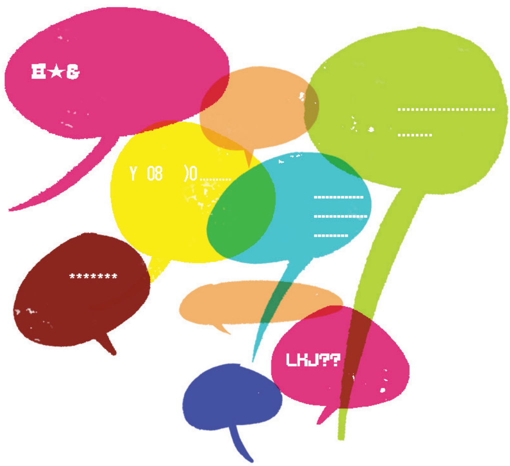
Incorporation

↓

Commencement of business

Accounts of Branches/Liaison Offices

The requirements relating to preparation of accounts, audit and submission of accounts to the Registrar of Companies are also applicable to the branch/liaison office of a foreign company. The accounts must comply with the disclosure requirements as contained in the Fifth Schedule of the Companies Ordinance, 1984.



Banking in Pakistan

Overview

Pakistan has a well-developed banking system, which includes various institutions ranging from a central bank to commercial banks and specialised agencies that cater for the special requirements of specific sectors.

Central Bank

The State Bank of Pakistan (SBP), established in 1948, is the hub of the country's financial system. It controls the monetary and credit system in Pakistan, performing many useful functions like custodian of cash reserve of commercial banks, custodian of foreign currency reserves, bank of rediscount, central clearance, settlement and transfer, and conducting monetary policy for the stability of the entire banking industry of Pakistan.

Banks in Pakistan

Pakistan's banks play a crucial role in influencing the financial status of the country. Various types of bank are available in the country: some are government-owned; others are privatised or private banks. Many foreign banks are also represented in Pakistan. The country's banking facilities provide a variety of services including payment of utility bills, remittances of profits/dividends, and issuance of shares.

Prudential Regulations

The State Bank of Pakistan has issued prudential regulations (PR) for:

- Agricultural financing
- Corporate/commercial banking
- Small and medium sized enterprises (SMEs)
- Consumer financing
- Micro-finance banks.

The complete text of these prudential regulations can be accessed at www.sbp.org.pk.

Credit Rating

A credit rating estimates the credit worthiness of an individual, corporation, or even a country. It is an evaluation made by credit rating agencies of a borrower's overall credit history. Typically, a credit rating indicates the probability of the subject being able to pay back a loan. However, in recent years, credit ratings have also been used to adjust insurance premiums, determine employment eligibility, and establish the amount of a utility or leasing deposit.

Credit Rating Agencies in Pakistan

The Pakistan Credit Rating Agency Limited (PACRA) is Pakistan's first credit rating agency. Its primary function is to evaluate the capacity and willingness of a corporate entity to honour its debt obligations. PACRA ratings reflect an independent, professional and impartial assessment of the credit risk associated with a particular debt instrument or a corporate entity.

JCR-VIS Credit Rating Co. Ltd (JCR-VIS) is a joint venture between Japan Credit Rating Agency, Ltd. (JCR), Japan's premier rating agency, and Vital Information Services (Pvt.) Limited (VIS), it is approved by the Securities and Exchange Commission of Pakistan and by the State Bank of Pakistan. JCR-VIS operates as a 'full service' rating agency, providing independent rating services in Pakistan.

Capital Market

Overview

The Pakistan financial system displays all the classic characteristics of an emerging market. Pakistan's capital and stock markets have reached fresh horizon of new possibilities where developments on the pattern of the world's most developed capital markets have already been implemented. This has resulted in intensified competition and increased investor confidence that have stimulated investment, leading to phenomenal growth in market activity.

This growth has been driven by a number of factors including continuous improvement in the country's economic fundamentals, large-scale merger and acquisition and government commitment.

Central Depository Company

The Central Depository Company of Pakistan Limited (CDC) is the only depository in Pakistan, and the sole entity handling the electronic (paperless) settlement of transactions carried out at the country's three stock exchanges. The CDC's efficient functioning ensures that approximately 99% of the market settlement is in book entry form.

CDC's primary objective is to operate the Central Depository System (CDS) for equity, debt and other financial instruments that are traded in the Pakistani Capital Market.

National Clearing Company of Pakistan

The National Clearing Company of Pakistan Limited (NCCPL) provides clearing and settlement services to all three stock exchanges in the country, and their function includes:

- Cross exchange netting
- Broker-to-broker delivery system
- Institutional delivery system
- Margin financing module
- Fully automated pay-and-collect system
- Netting of future market transactions with regular market trades
- Tariff collection through pay and collect
- Risk management
- Registration of unique identification numbers (UINs)
- Automated handling of corporate actions of securities held in CDS-blocked accounts

- Clearing and settlement facility through National Clearing & Settlement System (NCSS) or the trades/transactions executed on the unified trading system (UTS) platform of LSE and ISE. NCSS is an electronic clearing & settlement system which has been developed to replace the individual clearing houses of Pakistan's three Stock Exchanges by a single entity.

Stock Market

Pakistan's stock market is smaller in size but is significantly more active than the markets of similar size. In recent years the market has provided very high returns to investors. In 2002 the market was declared as the best performing stock market globally.

Pakistan's stock exchange consists mainly of three major stock exchanges situated in the major cities of Karachi, Lahore and Islamabad.

Karachi Stock Exchange

The Karachi Stock Exchange (KSE) is the biggest and most liquid exchange in Pakistan, and in 2002 was declared the best performing stock market of the world; in 2008, an increase of 7.4% in volume made it the best performer among major emerging markets.

Type of Trade

The KSE currently offers investors an opportunity to trade in five markets, as outlined below.

Ready Market

A conventional stock market, also known as the regular market, where buyers and sellers come together to trade shares. Settlement of trades occurs 2 days after the trade.

Cash-Settled Futures

A standardised contract to buy or sell at a certain date in the future, at a specified price. All settlement occurs purely on a cash basis. Depending on the contract, settlement occurs 30, 60 and 90 days after the contract is purchased.

Stock Index Futures

Stock index futures are traded in terms of number of contracts. Each contract is to buy or sell a fixed value of the index. A stock index future contract settlement occurs 90 days after the contract is purchased.

Deliverable Futures

Forward contracts to buy or sell a certain underlying instrument with actual delivery of the underlying instrument occurring. Settlement occurs 30 days after the contract is produced.

Debt Market

The debt market plays a critical role in any economy that needs to employ a large amount of capital and resources to achieve the desired industrial and financial growth. KSE has introduced trading in the debt market securities at the exchange through a bond-automated trading system.

Lahore Stock Exchange

Lahore Stock Exchange, established in 1970, is the second largest stock exchange in the country, with a market share of around 12–16% in terms of daily traded volumes.

Islamabad Stock Exchange

Islamabad Stock Exchange is the third stock exchange in the country.

Bond Market of Pakistan

Pakistan's bond market is in its early phase of development. The corporate bond market, which exists in Pakistan in the form of Term Finance Certificates (TFCs).

Term Finance Certificates (TFCs)

TFCs are based on legislation enacted in 1984, which authorises the issuance of redeemable capital securities. As a debt instrument, the TFC is slightly different from the traditional corporate bond because it was specifically designed to comply with Islamic Law. The TFC issuers include both non-financial and financial institutions as well as private and public firms. The coupon rates on the TFCs display a wide variety with different fixed coupons as well as floating coupons linked to various interest rates including the discount rate, Pakistan Investment Bond (PIB) rates, and the Karachi Inter-Bank Offer Rate (KIBOR).

Initial Public Offering (IPO)

IPO is made by a company offering shares or other tradable security to the public at large.

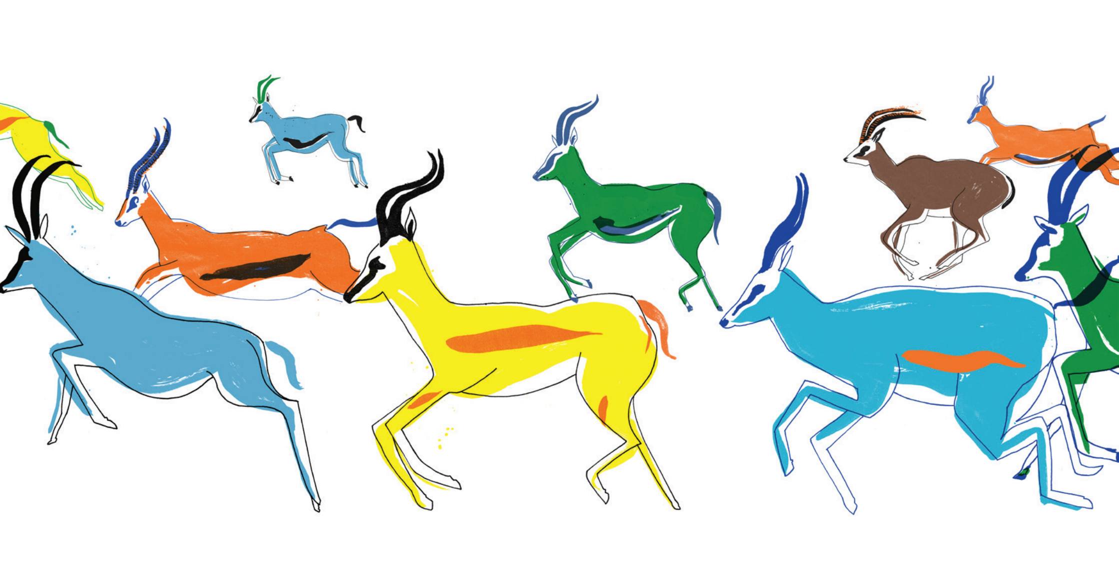
The IPO paves the way for listing and trading of the securities. It can be in the form of fixed price, or book-building (see below).

Book-Building

SECP guidelines defines book-building as a mechanism of price determination through which indication of interest for investment in the shares offered by an issuer is collected from Institutional Investors and a book is built which gives a picture of demand for the shares at different price levels. The strike price is determined based on the price at which demand for the share at the end of book building period is sufficient to raise the minimum capital required.

A company or a body corporate, or an offeror, if they fulfil the eligibility criteria, may offer shares through the book-building process, provided that:

- Not more than 75% of the total offer shall be allocated for offer through book-building process to institutional investors and high-net-worth individuals; and
- Not less than 25% of the total offer shall be allocated for offer to the general public.



Foreign Exchange

Overview

Foreign exchange policy and its operations in Pakistan are formulated and regulated in accordance with the provisions of the Foreign Exchange Regulation Act, 1947. The object of the Act is to regulate, certain payments, dealings in foreign exchange, securities, import/export of currency and bullion, in the economic and financial interests of Pakistan. Under rules defined by the State Bank of Pakistan, foreign currencies are made available to persons/companies doing business in Pakistan for all purposes.

The Act is friendly to foreign investors and provides freedom to bring, hold and take out foreign exchange, maintenance of foreign currency accounts, purchase and sale of shares and securities by non-residents and foreign exchange borrowings for setting up a new industry or for the balancing, modernisation or replacement of an existing industry. The rules relating to the purchase of technology and requirements for import licences have also been substantially relaxed.

In Pakistan, foreign investment enjoys full protection and repatriation facilities under the Foreign Private Investment (Promotion and Protection) Act, 1976.

Private Foreign Currency Accounts

Foreign currency accounts can be opened by anyone who falls in the list provided by the Foreign Exchange Regulation Act, 1947. A foreign currency account can be opened only if it is not fed by:

- Any foreign exchange borrowed under permission of the State Bank of Pakistan
- Any payment for goods exported from Pakistan
- Proceeds of securities issued or sold to non-residents
- Any payment received for services rendered in or from Pakistan
- Earnings or profits of the overseas offices or branches of Pakistani firms and companies, including banks
- Investment of resident Pakistanis abroad
- Any foreign exchange purchased from an authorised dealer in Pakistan for any purpose.

Foreign currency accounts can be fed by:

- Remittances received from abroad
- Foreign currency notes
- Foreign exchange generated by encashment of securities issued by the Government of Pakistan.

With permission from the State Bank, a special foreign currency account can be opened to retain foreign equity and foreign currency loans. The funds in these accounts can only be used for business related to the account holder or that is otherwise permitted under the foreign exchange regulations.

Immunities to Foreign Currency Accounts

Under the Protection of Economic Reforms Act, 1992:

- All persons who hold foreign currency accounts in Pakistan shall continue to enjoy immunity against any inquiry from the any taxation authority as to the source of financing of the foreign currency accounts
- The balances in the foreign currency accounts, and income there from, shall continue to remain exempted
- The banks shall maintain complete secrecy in respect of transactions in the foreign currency accounts
- The State Bank, or other banks, shall not impose any restrictions on deposits in, and withdrawals from, the foreign currency accounts and restrictions, if any, shall stand withdrawn forthwith.

Non-Resident Rupee Accounts

There are two types of non-resident rupee accounts:

- Accounts of all banks' overseas branches or correspondents
- Accounts of individuals, firms or companies resident in countries outside Pakistan.

Non-Resident Rupee Accounts of Foreign Bank Branches and Correspondents

New non-resident rupee accounts may be opened by authorised dealers in the names of their overseas branches or correspondents without the prior approval of the State Bank. The following facilities are provided for such accounts:

- Drawings can be made on these accounts of overseas banks by their branches and correspondents located in any other country, irrespective of their monetary area
- Any credit payment to the account constitutes an outward remittance and is equivalent to a sale of the appropriate foreign currency
- Any debit payment constitutes an inward remittance and is equivalent to purchase of the appropriate foreign currency. Such payments may be made freely by the authorised dealers
- Foreign currencies from banks' overseas branches and correspondents and credit the rupee equivalent to their non-resident rupee accounts may be freely purchased by authorised dealers.

Prior approval of the State Bank is required for the sale of foreign currencies to non-resident bank branches and correspondents against credit balance available in their non-resident rupee account.

Non-resident exchange companies can open a non-resident rupee account for the purpose of effecting payment of remittances made by overseas Pakistan nationals. Authorised dealers can enter into drawing arrangements with the exchange companies but they have to obtain guarantee of a reputable bank equivalent to one month's aggregate rupee drawings, and the replenishment from the exchange companies should be called within 4 to 5 days of the drawings.

Private Non-Resident Rupee Accounts

Private non-resident accounts in the names of persons or firms or companies can be opened without the prior approval of the State Bank. There are four categories of non-resident account, to suit the needs of:

- Pakistan nationals permanently residing and domiciled abroad
- Pakistan nationals who are abroad for short visits
- Foreign nationals residing abroad
- Foreign nationals ordinarily resident in Pakistan but making short visits abroad.

All debits and credits other than those mentioned in the Foreign Exchange Manual, 2002 are required to obtain prior approval from the State Bank.

Accounts of the United Nations and its Organisations

The accounts of the United Nations and its organisations are free from financial controls. The authorised dealers are therefore required to treat such accounts as 'resident accounts'.

Joint Accounts of Residents and Non-Residents

Non-residents can maintain accounts jointly with residents; these will be treated as non-resident accounts, even if they are to be operated solely or jointly by the residents.

Accounts of Foreign Nationals Resident in Pakistan

The accounts of all foreign nationals who are resident in Pakistan and the accounts of companies or firms whose head offices or controlling interests are outside Pakistan, but their accounts are operated on by persons in Pakistan, are treated as resident accounts.

Issue, Transfer and Export of Securities to Foreign Investors

The State Bank has given general permission to non-residents to purchase shares of Pakistani companies quoted on the stock exchange irrespective of the nature of their business, and shares of private companies that are engaged in manufacturing, power generation and approved segments of service sectors. This facility is available only to the following categories of non-residents, subject to payment being made in foreign currency and the price being not less than break-up value as certified by a practising chartered accountant in the case of unlisted shares and the market price in case of quoted shares:

- A Pakistan national resident outside Pakistan
- A person who holds dual nationality including Pakistan nationality, whether living in or outside Pakistan
- A foreign national, whether living in or outside Pakistan
- A firm (including a partnership) or trust or mutual fund registered and functioning outside Pakistan, excluding entities owned or controlled by a foreign government.

Special Convertible Rupee Account

A special convertible rupee account (SCRA) is required to be opened by a non-resident with any authorised dealer for the purpose of trading freely in the shares quoted on any stock exchange in Pakistan.

- The account can be fed by remittances from abroad or by transfer from a foreign currency account maintained by the non-resident investor in Pakistan. The balance available therein can be used for purchase of any share quoted on the Stock Exchange
- Disinvestments proceeds may be credited provided evidence of the sale price in the shape of stock broker's memo is produced
- The fund available in such special account can be transferred outside Pakistan or credited to a foreign currency account maintained in Pakistan at any time without prior approval of the State Bank
- The account can also be credited with dividend income
- Transfers from one such account to another may also be made in case of transfer of shares between the two accountholders.

Export of Securities

Export of Pakistani Securities

A Pakistan national, or a person resident outside Pakistan who holds Pakistani securities and is willing to send or take out such securities, is required to obtain prior permission of the State Bank by applying through an authorised dealer.

Export of Foreign Securities

A Pakistan national resident in Pakistan is permitted to hold or retain foreign securities provided s/he has acquired them in a manner not involving a breach or violation of the foreign exchange regulations. For sending such securities to banks, brokers or agents outside

Pakistan for purpose of sale, transfer, etc., an application must be made to the State Bank through an authorised dealer for the necessary export licence. The licence is granted if the authorised dealer gives an undertaking that the securities will be received back in Pakistan within a specified period; or, in the case of sale, the sale proceeds in foreign currency will be repatriated to Pakistan.

Import of Securities

There are no restrictions on import into Pakistan of any securities, whether Pakistani or foreign.

Non-Filing of Return for Securities by Foreign Nationals

Foreign nationals residing in Pakistan are not required to make a return to the State Bank for any security in respect of which the principal, interest or dividends is or are payable in the currency of any foreign country or in respect of which the owner has the option to acquire the payment of principal, interest or dividends in such currency.

Private Remittances

Family Remittance Facilities

Foreign nationals who are resident in and have income in Pakistan are permitted to make remittances to the country of their domicile out of their current savings, to cover their commitments for family maintenance, insurance premiums, educational expenses for their children, legal charges, mortgage payments, loan interest, etc. Such remittances can be made to the extent of the difference between the net income of the applicant and his estimated expenses in Pakistan, as declared in the prescribed application form. This facility is, however, not available to Indian and Afghan nationals or to foreign-born wives of Pakistan nationals.

Other Private Remittances

The following private remittances, subject to limit, are allowed by an authorised dealer upon application:

- Subscription to foreign journals and magazines
- Import of any importable item or items by actual users
- Subscriptions or membership fees of educational, technical, professional and scientific institutions
- Payment of fees for correspondence courses
- Fees for appearing in examinations held in Pakistan by foreign professional/educational institutions.

For other private remittances, an application must be made to the State Bank explaining the purpose of the remittances, along with appropriate documentation. If the applicant is not a resident of Pakistan, the name of their country of residence must be supplied; if the applicant is a foreign national, their period of residence in Pakistan and future intentions in this regard are to be mentioned. Details of any permit obtained for making monthly remittances to the applicant's country of domicile are also required.

Local Borrowings by Foreign-Controlled Companies

Loans for Working Capital Requirements

Foreign-controlled companies can be granted rupee loans and credits for meeting their working capital requirements from authorised dealers.

Loans for Capital Expenditure

Foreign-controlled companies can take loans from abroad and can raise medium and long-term rupee loans (in special circumstances) to meet their capital expenditure requirements, after obtaining permission from the federal government/State Bank. However, foreign-controlled manufacturing companies do not require permission to take loans for this purpose from banks, development finance institutions (DFIs) and other financial institutions or by issuing term finance certificates, etc.

Foreign Borrowings by Foreign-Controlled Companies

Foreign-controlled companies can contract foreign currency loans from banks/financial institutions abroad, or from their head offices or from other overseas branches/associates, for meeting their working capital requirements. The repayment period should not exceed 12 months and the rate of interest should not exceed 1% over LIBOR. Such loans can, however, be rolled over for further periods not exceeding 12 months each. Note that a foreign company's branches in Pakistan are not allowed to pay interest on such loans.

Foreign Currency Borrowing

Private Foreign Currency Loans

Private sector entrepreneurs can obtain foreign currency loans from banks/financial institutions abroad, parent companies of the multinationals and as supplier's credit including credits under the PAYE scheme, not involving government guarantee, for financing the foreign-currency cost of the projects covered by the government's Industrial/Investment Policy. The repayment period of such loans cannot be less than 5 years.

Foreign Currency Loans for General Purpose

Individuals, firms, companies resident in Pakistan including foreign controlled companies and branches of foreign companies (excluding banks) can obtain foreign currency loans from abroad on a repatriable basis for any purpose, subject to foreign exchange regulations.

Foreign Currency Loans for Financing Exports

Exporters having valid firm commitments with the overseas buyers for export of goods from Pakistan can obtain short-term loans in foreign currencies from abroad or through an authorised dealer. This facility can be availed to the extent of the value of such firm commitment so as to enable the exporters to finance the export of goods from Pakistan. The amount of foreign currency loan would have to be repatriated to Pakistan and encashed with an authorised dealer. If an exporter utilises this facility, they are not eligible to obtain export finance in local currency from any bank in Pakistan.

Forward Cover Facilities

Authorised dealers provide forward cover for export, import, foreign private loans, repatriable foreign currency loans (excluding loans obtained by foreign contractors and branches of foreign companies) for any duration more than 1 month, in accordance with conditions prevailing in the market.

Remittance of Royalty/Franchise and Technical Fees

Remittance of royalty/franchise and technical fees is provided for three sectors: manufacturing, non-manufacturing (including services) and financial.

In the manufacturing sector, no technical fee shall be allowed for simple conventional process goods that are being produced in the country without foreign technical collaboration.

For the non-manufacturing sector, the remittance of royalty/franchise and technical fees is allowed in accordance with the following guidelines:

- The initial lump sum fee payable to the party providing technical expertise and/or allowing use of their brand name can be a maximum of US$ 100,000, irrespective of the number of outlets under one franchise
- A maximum of 5% remittance of net sales (excluding sales tax) is allowed as fees for non-manufacturing projects. In the food sector, this remittance is only for those items that are core items of the franchise and are the specialties of the trade name
- The initial period for which fees are allowed to projects in non-manufacturing sectors cannot exceed 5 years.

For the financial sector, remittance of royalty/franchise and technical fees or commission/ service charges is allowed subject to the following guidelines:

- Application for remittance to the foreign collaborators in respect of their branded financial products/services is approved and allowed by the State Bank on a case-by-case basis
- The one-time, lump sum, upfront royalty/technical fee/franchise fee cannot exceed US$ 500,000

- Continuing payments up to 0.25% in aggregate of the customer's billing (net of taxes/ surcharges) is allowed. This payment is recovered from either the customer or from resources of the financial institution.

Remittance of Profits by Foreign Banks/Companies

Remittance of profits by branches of foreign banks/foreign companies operating in Pakistan to their head office abroad can be made on submission of specified information and documents to the State Bank. A company other than a bank, insurance company, airline or shipping company can also make remittance of profit without prior approval of the State Bank by applying to the State Bank of Pakistan.

Remittance of Dividend

Companies are required to designate a bank through which they would like to make remittance of dividends to non-resident shareholders. On receipt of nomination of a bank from the company, the State Bank authorises the concerned bank to effect remittance of dividends to the non-resident shareholders of the company without its prior approval.

Export of Dividend Warrants

Dividend warrants of companies incorporated in Pakistan can be freely exported to the non-resident shareholders provided the shares has been approved by the State Bank and a statement of such non-resident shareholders has been filed with it.

Remittance of Export Commission,Brokerage and Discount

Authorised dealers can allow payment of commission, etc., upto the extent below without the prior approval of the State Bank:

Table 3: Remittance of Export Commission

	Maximum rate
Books, journals and magazines	Up to 33.33%
Engineering goods, sporting goods, surgical instruments, cutlery, leather goods, ready-made garments and other textile made-ups, carpets and plastic manufacturers	Up to 10%
Cotton	Up to 2%
All other goods except cement	Up to 10%

Cases not covered by the above instructions should be referred to the State Bank with full facts and documentary evidence.

Employment of Foreigners

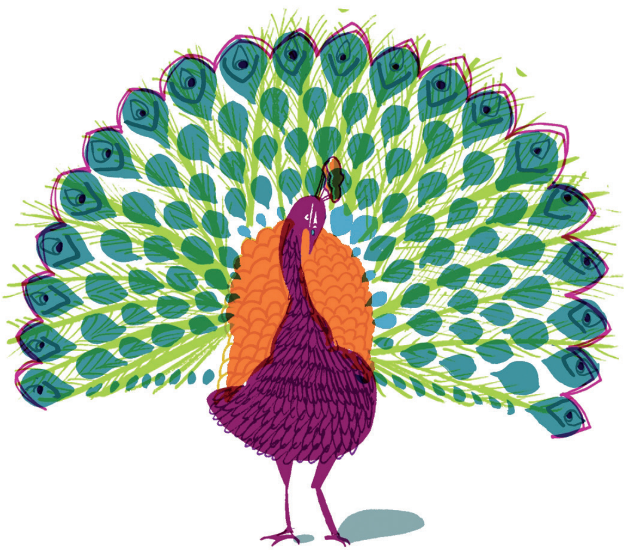
The employment of foreign technical and managerial personnel in the manufacturing, social, infrastructure and service sector projects does not require the approval of the Board of Investment (BOI). However, these employees do require a work visa. They are allowed to transfer to their countries of domicile the difference between their salaries and estimated living expenses in Pakistan on a monthly basis, through their bank. Similarly, no approval is required for the employment of foreign experts and technicians for the supervision of installation and commissioning of a plant and the training of local personnel for running the plant; and commercial banks are authorised to allow remittance of foreign exchange for this purpose.

Foreign Currency Holdings

Both residents and non-residents are allowed to bring in and hold foreign currency without any limit or restriction. However, a maximum of US$ 10,000 can be extracted out of Pakistan.

Conversion of Foreign Currency Funds into Rupee

Branches/liaison offices/representative offices of foreign companies, meeting their expenses out of funds (in foreign currency) received from their head office, are required to convert such funds/foreign currency into rupees with a bank in Pakistan.



Taxation

Chargeability to Tax

A resident person is chargeable to tax on world income; a non-resident is chargeable to tax on their Pakistan-source income only. The test of residency has a significant bearing on the scope of income and its chargeability to tax. This affects the applicable rate of tax, entitlement to tax credits, and entitlement to tax exemptions and concessions.

Legal Status

In Pakistani tax law, a person may have one of the following legal status:

- Individual
- Company
- Association of persons.

Residency Test

A company incorporated in Pakistan is treated as a resident company. A company incorporated outside Pakistan is considered resident for a tax year in a situation where control and management of its affairs is wholly or partly in Pakistan at any time during that tax year.

An individual is treated as resident if their aggregate stay in Pakistan in a tax year is 183 days or more, or if they are an employee of the federal government or a provincial government who is posted abroad.

Tax Year

A tax year is a period of 12 months ending on 30 June. The same is denoted by the calendar year in which the said date falls. If a company's income year ends on a different date, then it must obtain permission from the Commissioner to use an accounting year other than that ending on 30 June. This is known as a 'special tax year'.

Return of Income and Assessment

A company having a normal tax year is required to file its return of total income on or before 31 December each year. A company having a tax year other than a normal tax year is required to file its return of total income on 30 September next following the close of its tax year.

Assessment

A complete filed return is considered to be an assessment order passed by the commissioner. The order is deemed to be passed on the date the return is filed. If the return is not complete, the commissioner would issue a notice requiring a taxpayer to make up the deficiencies.

Once the deficiencies are made up, the return will be considered an assessment order. The commissioner's notice highlighting the deficiencies cannot be issued after the end of the financial year in which the return was filed.

Tax Audit

The income tax affairs of a company may be subject to audit. This audit is conducted on the basis of selection of case for audit.

Amendment of Tax Assessment

Consequent to the audit, a commissioner may amend the assessment of a taxpayer on the basis of the audit findings. Assessment may also be amended if a commissioner considers that it is erroneous and prejudicial to the interest of revenue. A commissioner may further amend the assessment if there is definite information that:

- Any income chargeable to tax has escaped assessment
- The total income has been under-assessed, or assessed at a lower rate, or has been subjected to excessive relief or refund
- Any amount under a head of income is misclassified.

Advance Tax

A company is liable to pay tax in advance for each quarter in every tax year. This tax is payable on the basis of last assessed tax liability. However, if a company's tax liability is estimated to be lower or higher than the last assessed liability, then advance tax is to be paid on the revised estimate as the case may be. If the advance tax so paid is less than 90% of tax chargeable for that year, then the company shall be liable to default surcharge at the rate of 18% per annum on such amount by which tax paid by the company falls short of 90%.

Payment of Tax

A company is required to pay balance of tax liability, if any, along with return of total income.

Heads of Income

The total income of a person chargeable to tax for a tax year is the sum of income under each head of income for that year. For this purpose, the income is classified under the following heads:

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

Salary

An individual's salary income is taxable, on the basis of employment exercise in Pakistan; irrespective of its status as resident or non-resident. Chargeable rate of tax ranges from 10–35% for individuals according to the slab rates announced in the Budget every year.

Income from Property

Rental income received or receivable by a person shall be chargeable to tax under this head. Certain deductions are admissible in computing income, chargeable under this head, and net property income shall be taxable at normal rates. However, tax shall be deducted by the withholding agent at the time of making payment of rent at the prescribed slab rates for individuals or associations of persons, and 15% for companies. The tax collected/withheld shall be adjustable from the final tax liability of the person from whom tax has been deducted.

Capital Gains

Capital gain or capital loss on disposal of a capital asset is chargeable to tax under the head 'capital gains'. Capital gain or loss of a capital asset is the difference between the consideration received on disposal of asset and the cost of acquiring the asset. Where a capital asset is disposed of after being held for 1 year, for tax purposes the gain shall be reduced by 25% – that is, only 75% capital gain shall be taxable. However, the whole amount will be chargeable if the capital asset is sold before the expiry of 1 year. Any capital gain arising on sale of shares of a public company or any instrument of redeemable capital is taxable as follows:

Table 4: Capital Gain on Sale of Shares of a Public Company

Serial No.	Holding Period of Security	Tax Year	Rate of Tax
1.	<6 months	2011	10%
		2012	10%
		2013	10%
		2014	10%
2.	>6 but <12 months	2011	7.5%
		2012	8%
		2013	8%
		2014	8%
Tax Year 2015			
3.	<12 months		12.5%
4.	≥12 but <24 months		10%
5.	≥24 months		0%

Income from Other Sources

Dividends

The dividend income of a company is taxable on a net income basis under the head 'Income from other sources'. Payment of dividends is also subject to withholding tax under section 150 of the Ordinance, and the company paying the dividend is required to deduct tax at the prescribed rates. The tax withheld at source is considered a full and final discharge of tax liability in respect of such income.

It is important to note that any out of tax profits remitted to the head office by the branch or permanent establishment in Pakistan is also treated as a dividend.

Income from Business or Profession

The following income during a tax year is chargeable to tax under the head 'Income from business':

- The profits and gains of any business carried on by a person at any time during a tax year
- Any income derived by any trade, professional or similar association from the sale of goods or provision of services to its members
- Any income from hire or lease of tangible moveable property
- The fair market value of any benefit or perquisite, whether convertible into money or not derived by a person in the course of, or by virtue of, a past, present or prospective business relationship
- Any management fee derived by a management company
- Any profit on debt derived by a person where its business is to derive profit on debt
- Any amount received by a banking company or a non-banking finance company that represents distribution by mutual fund, or private equity and venture capital fund, out of its income from profit on debt.

Depreciation and Amortisation

Depreciation is an allowable deduction for business assets. Deduction for depreciation is calculated at predetermined rates annually using reducing the balance method. Full year depreciation is allowed for the year the asset is put into use for business purposes, and no depreciation is allowed in the year of disposal of asset.

Depreciable assets are also allowed accelerated depreciation (an initial allowance of 50% for plant/machinery and 10% for buildings) if the asset is put into service in Pakistan for the first time. Assets on which initial allowance cannot be claimed are:

- Any road transport vehicle, unless it is plying for hire
- Any furniture, including fittings
- Any plant or machinery that has been used previously in Pakistan

- Any plant or machinery the cost of which has been allowed as a deduction to the taxpayer.

Industrial undertakings set up in specified rural areas are entitled to a first-year allowance at 90% on installation of plant machinery and equipment.

Intangibles

The cost of an intangible asset used in deriving business income is amortised over its useful life. Its useful life cannot be ascertained, it is treated as having a useful life of 10 years. The intangibles are amortised using the straight-line method.

Set-Off/Carry-Forward of Losses

Business loss sustained in a tax year can be set off against any other taxable income earned under any other head other than a salary income and speculation loss. Loss from speculation business can only be set-off against any other speculation income during the year. The same is allowed to be carried forward to the next year to be set off against speculation income for that year. Where the losses are not wholly set off during the year, they can be carried forward for the next 6 tax years following the tax year in which the losses occurred.

Any loss representing unabsorbed depreciation is allowed to be set off and carried forward for unlimited number of years until it is fully set off against the company's income.

Apportionment of Expenses

Income tax law in Pakistan provides for allocation of an expense to the particular class of income in respect of which it is incurred. However, any common expenditure that is incurred for deriving more than one class or head of income is to be apportioned against each on the basis of turnover of each class/head of income.

Head Office Expenses

Head office expenditure is allowed to a non-resident operating in Pakistan through a branch or a permanent establishment (PE). This expense is allowed in the ratio of Pakistan's turnover to world turnover. However, the following head office expenditures are not allowed:

- Payments by the branch or PE to its head office or to an associated PE other than towards reimbursements to third parties for royalty, fee or any similar payment for the use of any asset of the branch or PE
- Interest and any insurance premium related thereto charged to the branch or PE by the head office on debt for financing the PEs operations.

Withholding Tax

Prescribed persons are liable to withhold tax at the time of making the following payments:

- Salary
- Director fee
- Profit on debt
- Payments to non-residents
- Payments on account of services and supply of goods
- Payments on account of rent
- Payment of prize on prize bonds, winnings from a raffle, lottery.

Mode of Taxation

Pakistan's tax law provides for taxation on a net income basis, or full and final taxation.

Net Income Basis

Under this mode of taxation, the person's taxable income is arrived at by allowing for all admissible deductions available under the law under a particular head of income. This mode of taxation further allows for the set-off and carry-forward of losses and claim of tax credit.

Full and Final Taxation

Full and final taxation is dependent on the withholding of tax made at source in respect of a particular income. The tax deducted at source is treated as full and final discharge of tax of the taxpayer's income on which withholding is made. Under this mode of taxation, the taxpayer is not allowed to claim and deduct set-off or carry-forward losses, or any tax credit.

Group Taxation

Under this option, wholly-owned group companies formed under the Companies Ordinance, 1984 (i.e., resident companies) may opt for taxation as a single fiscal unit.

This requires the companies in a group to choose the irrevocable option of being taxed as such. For this purpose, they are taxed as per the consolidated accounts of group companies. The benefit of this option is adjustment of intercompany losses in a group. However, this benefit does not apply to losses incurred prior to the group's formation.

Group Relief

Tax laws in Pakistan further provide option for subsidiary companies to surrender their losses in favour of their holding companies or in favour of other subsidiaries of the holding company. This option can only be exercised by resident companies; group companies engaged in the business of trading are not entitled to this facility. Such adjustment of losses is not allowed in the case of brought-forward losses or capital losses. The following conditions must be met:

- The holding company holds 55% of the subsidiary's share capital if one of the companies in the group is listed; otherwise, 75%. Companies opting for this facility are required to maintain this structure of holding for a continuous period of 5 years. In case of any change in the structure, to bring it down to the prescribed limits, the holding company would have to offer the amount of profit for tax on which tax was not paid due to adjustment under this option. If the holding company is a private limited company, the same is required to get listed within 3 years from the date on which the loss is so claimed
- Adjustment of losses under this option is allowed for 3 tax years. If the losses surrendered in favour of the holding company are not exhausted in 3 tax years, the remaining amount is transferred back to the subsidiary and allowed for adjustment under normal provisions
- The subsidiary company surrendering losses is required to continue the same business during the 3 tax years while the loss is being adjusted
- All companies in the group are required to obtain approval of set-off of losses and are further required to comply with the corporate governance requirements prescribed by the SECP.

Transfer Pricing

These provisions address not only issues of transfer pricing in respect of multinationals, but also domestic issues arising out of transactions executed without regard to the arm's-length principle.

Transactions Between Associates

The authorities are empowered to distribute income or allocate expenses or tax credits in respect of transactions between associates if in their view the transaction has not been executed having regard to the arm's-length principle.

Re-Characterisation of Income and Deductions

Pakistan's tax law further empowers the authorities to re-characterise a transaction for the purposes of correct determination of taxes if:

- The authorities believe, and have reasonable grounds to hold, that a transaction or element of a transaction has been entered into for the purposes of avoidance or reduction of any person's tax liability
- The form of transaction does not reflect the substance
- The authorities have further been allowed to disregard a transaction not having any substantial economic effect.

Thin Capitalisation

According to this concept, a foreign-controlled resident company other than a financial institution shall not be allowed deduction in respect of profit on debt if it has a ratio of foreign debt to foreign equity in excess of 3:1.

Advance Ruling

A non-resident is allowed to obtain an advance ruling from the Federal Board of Revenue (FBR) in respect of a proposed transaction or a transaction entered into. In such a ruling, the scope of application of the provisions of the Ordinance is set out. This ruling is binding on all the tax authorities in respect of that particular transaction if the transaction has been carried out in all material respect as has been determined in the ruling.

Sales Tax

Chargeability of Sales Tax on Supply of Goods

Under the Sales Tax Act, 1990 the Pakistan government levies sales tax of 0–26% at various stages of economic activity on supply of the following goods:

- All goods imported into Pakistan (payable by the importers)
- All supplies made in Pakistan by a registered person in the course of furthering their own business.

There is an in-built system of input tax adjustment and a registered person can make adjustment of tax paid at earlier stages against the tax payable on their supplies, subject to certain conditions. Presently, general sales tax rate is 17% of the total sales price of the supplies. Sales tax is chargeable on all locally produced and imported goods except those goods specified as exempt in Schedule 6 to the 1990 Act.

Further tax at the rate of 1% is charged by the supplier from unregistered customers besides the normal sales tax rate of 17%. This levy of further tax on an unregistered person is to encourage taxpayers to get them registered with the FBR to save extra 1%. However, there are certain exceptions to the levy.

Withholding of Sales Tax

Any person prescribed as a withholding agent under the Sales Tax Special Procedure (Withholding) Rules, 2007 is required to withhold sales tax from payments made to the vendors at the prescribed rates and to deposit the amount of sales tax withheld in the national exchequer. Persons from whom such sales tax has been withheld may claim adjustment of such amount from the output tax liability for the month. The following persons are prescribed as withholding agents:

- Federal and provincial government departments
- Autonomous bodies

- Public sector organisations
- Companies
- Recipients of advertisement services
- Persons registered as exporters.

Requirement for Registration

The following sectors must register for sales tax and charge sales tax on their supplies:

- Manufacturers
- Retailers
- Importers
- Wholesalers
- Dealers
- Distributors
- Commercial exporters.

Issuance of Tax Invoice

Any registered person making taxable supply must, at the time of supply of goods, issue a tax invoice containing the following details:

- Name, address and registration number of the supplier
- Name, address and registration number of the buyer
- Date of issue of invoice
- Description and quantity of goods
- Value exclusive of tax
- Amount of sales tax
- Value inclusive of tax.

Maintenance of Records

Every registered person must maintain a proper record of their business transactions as required by law for at least 6 years after the end of the tax period to which such record relates. The record may be maintained electronically in the prescribed format.

Filing of Return

Every registered person is required to submit electronically monthly sales tax returns via the FBR web portal by the 18th day of the month following the month to which sales relate. However, where the person is required to pay sales tax liability for the month, such amount is required to be deposited in the national exchequer by the 15th of the month following the month to which such payment relates; and the return must be filed by the 18th of the same month. The FBR has also prescribed submission of return quarterly or annually instead of monthly in certain cases. Failure to submit the return within the due date may attract penalties.

Chargeability of Sales Tax on Services

Sales tax on services has been imposed in the Province of Sindh, Punjab and Khyber Pakhtunkhwa.

Some of the broad categories of service taxable under the provincial domain include:

- Telecommunications
- Services provided or rendered by hotels, restaurants, marriage halls, lawns, clubs and caterers
- Advertising
- Clearing and forwarding agents
- Business support services
- Services provided by banking and non-banking finance companies
- Services provided by professionals and consultants, etc.
- Franchise services
- Construction services
- Human resource services.

This list is by no means exhaustive; the services are mentioned to offer some insight into the types of service that are taxable under provincial regulations. The sales tax rate on services rendered in Sindh is 15%. However, for the remaining provinces, the sales tax rate on services remains the same i.e. 16% of the value of services.

Labour Force and Labour Laws

Introduction

Pakistan is home to the 10th largest labour force in the world; it has seen a gradual increase in urban areas (see table below).

Table 5: Civilian Labour Force: Pakistan and Provinces

	Labour Force (%)					
Province/Area	2012–13			2010–11		
	Total	Male	Female	Total	Male	Female
Pakistan	100.00	51.05	48.95	100.00	51.06	48.94
Rural	64.33	32.52	31.81	64.60	32.73	31.87
Urban	35.67	18.53	17.14	35.40	18.33	17.07
Punjab	56.51	28.27	28.24	56.82	28.50	28.32
Rural	37.20	18.45	18.75	37.73	18.77	18.96
Urban	19.31	9.82	9.49	19.09	9.73	9.36
Sindh	24.88	13.34	11.54	24.94	13.35	11.58
Rural	12.24	6.61	5.64	12.21	6.6	5.60
Urban	12.64	6.73	5.90	12.73	6.75	5.98
Khyber Pakhtunkhwa	13.95	6.88	7.07	13.77	6.74	7.03
Rural	11.43	5.57	5.87	11.30	5.49	5.81
Urban	2.52	1.31	1.20	2.47	1.25	1.22
Baluchistan	4.66	2.56	2.10	4.47	2.47	2.00
Rural	3.45	1.90	1.55	3.36	1.86	1.50
Urban	1.21	0.66	0.55	1.11	0.61	0.50

Source: www.pbs.gov.pk/content/labour-force-survey-2012-13-annual-report

Labour Law: An Overview

When the modern state of Pakistan was first established, it simply inherited the laws that had been in place in undivided India. Since independence, it has gone through a continuous process of development in line with the country's industrial proliferation, socio-economic conditions and the need to ensure fair practice between employer and employee.

The Constitution also lays down the responsibility of both the federal and provincial governments regarding labour. Laws are enacted by the federal government, while the provincial government may make rules and regulations of their own, according to the conditions prevailing in (or to meet specific requirements of) the provinces.

Major Labour Laws

Industrial Relations Ordinance, 2008

Industrial relations law was initially promulgated in 1969, but was superseded in 2008 by the Industrial Relations Ordinance, 2008. The objectives of this legislation are to amend and consolidate the law relating to the formation of trade unions, regulation of relations between employers and workers, and the avoidance and settlement of any differences or disputes. The Ordinance covers matters relating to trade unions and freedom of association, registration of trade unions, workers' participation and dispute resolution, labour courts, authorities, decisions, settlements, awards, penalties and procedures, etc.

Employees' Old Age Benefits Act, 1976

If an industry or establishment has five or more employed persons, it must be registered under this Act. The contribution towards this Act is to be made by both employer and employee: the employer must contribute 5% of the worker's minimum wage, and this contribution cannot be recovered from the employees. The employee is required to contribute 1% of an employee's minimum wage.

The law also prescribes the minimum old age benefits of the employees, which are fixed at Rs. 3,600 per month; whereas the minimum wage for the worker as provided in the Minimum Wages for Unskilled Workers Ordinance, 1969 is fixed at Rs. 10,000.

Recent amendments have extended the applicability of this Act for employees of banks or banking companies and to the contingent/project employees of such statutory bodies.

Employees' Cost of Living (Relief) Act, 1973

This Act has been provided for payment of a cost of living allowance to employees and to address related matters. It establishes responsibility of the employer for the payment of the cost of living allowance to the employees and also requires that such allowance be paid along with the wages in accordance with the custom, usage, practice or law applicable to the undertaking. The act provides different rates or amounts of allowance for employees with different levels of income, and also contains provisions in case of delay in payment of such allowances.

Provincial Employees' Social Security Ordinance, 1965

This ordinance introduces a social security scheme providing benefits to certain employees or their dependents in the event of sickness, maternity, injury or death of the employee. It includes injury benefit, medical care, maternity benefit, death grant, pre-natal and post-natal care, disablement pension, disablement gratuity, etc.

Under the Ordinance, the employer's social security contribution has been capped at 6% and such contribution is required to be paid by the employer (in respect of every employee drawing wages up to Rs. 10,000) to the Employees' Social Security Fund established by the government. The amount of contribution is determined on the basis of daily wages calculated in the manner provided by the regulations, and the expenses of the affected employees are incurred out of the fund. Such contribution cannot be recovered by the employee.

Factories Act, 1934

The Factories Act, 1934 deals with the employees' working environment and covers their daily and weekly working hours, weekly holidays, compensatory holidays, annual holidays, casual or sick leave, special provisions for adolescents and children, health and safety of workers, overtime payments, etc.

Under the law the working hours of the employees at a factory employing 10 or more workers cannot be more than 9 hours/day and 48 hours/week for adult employees, or not more than 7 hours/day and 42 hours/week for children. Children between the ages of 14 and 18 years can be employed, provided they obtain a certificate of fitness from a certifying surgeon. Every worker completing a period of 12 months' continuous service in a factory is allowed, during the subsequent period of 12 months, holidays for a period of 14 consecutive days. Furthermore, 10 days' casual leave is granted upon contingent situations with full pay, and 16 days' sick or medical leave at half pay.

Labour Policy, 2010

Salient Features of the Labour Policy, 2010

- The minimum wage of Rs. 8,000/month raised to Rs. 10,000 per month
- The registration of workers was linked with the Smart Cards issued by National Database Registration Authority (NADRA). This card also serve the purpose of registration for Social Security, Employee Old Age Benefit and Workers' Welfare Fund and also provide a useful database of labour force information
- Wages must be paid to employees through cheque/bank transfer by every industrial, commercial and other establishment registered under any law
- All contract employees in public sector must be regularised/confirmed within the shortest possible time
- Tripartite Monitoring Committees were set up at district, province and federal level to monitor implementation of labour laws, particularly with reference to payment of wages, working environment and working time
- All workers registered under the Employee Old Age Benefit (EOBI) Act, 1976 Universal Registration Scheme are eligible for benefits from the Workers' Welfare Fund
- Any dismissed/retrenched worker is to be paid legal aid to a maximum of Rs. 15,000 on request of an officer of the registered trade union and subject to recommendation of the Monitoring Committee
- A review board must be established to review the cases of any workers dismissed under the Removal from Service (Special Powers) Ordinance, 2000

- A worker must be referred to any public/private hospital if the social security hospital lacks facilities for their appropriate treatment. In such case, all cost of treatment is to be incurred by the respective social security institution
- Retired and registered workers are entitled to medical facilities provided by the social security scheme
- The EOBI Act, 1976 applies to the employees of such statutory bodies, which are otherwise exempted under the provisions of the Act
- The survivors of a registered insured person under the EOBI Act are to be paid a Survivor's Pension without any condition of minimum insurable employment
- Pension enhanced for Government Servants
- For mine workers, the age of entitlement to old-age pension was reduced from 55 years to 50 years
- The Metric Tech Scheme was introduced in all schools run by the Workers' Welfare Fund, to provide technical education for the students
- A full-fledged labour market information system was established, with the creation of a human resource centre in various cities
- The government ensures full adherence to labour laws and a worker-friendly environment in all establishments.

Table 6: Summary of Major Labour Laws

Name of statute		Employee Old Age Benefits Act, 1976	Employees' Cost of Living (Relief)Act, 1973	Worke Ordina
Payment of allowance or compensation by employer		No	Yes	No
Requirement for establishment of separate fund		Yes	No	Yes
Contribution by	Employer	Yes	No	Yes
	Employee	Yes	No	No
	Government	Yes	No	Yes*
Collecting authority		Institution established by government	None†	Taxatio
Benefit		Monthly old age pension at specified rates	Monthly allowance	Financi measur as educ constru
When benefit accrued		Employees aged >60 years (>55 years for females; >50 years for mine workers) and for whom ≥15 years' contribution has been paid	Paid along with wages	As deci body u the em
Applicable in respect of		Every industry or establishment that employs ≥5 persons	Every industry or establishment where people are employed	Every i establis income

*At the discretion of the government.

†The allowance is paid directly to the employee.

rs' Welfare Fund nce, 1971	Companies Profits (Workers' Participation) Act, 1968	Provincial Employees' Social Security Ordinance, 1965	Workmen Compensation Act, 1923
	No	No	Yes
	Yes	Yes	No
	Yes	Yes	No
	No	No	No
	No	Yes*	No
n Officer	Board of Trustees	Institution established by government	Commissioner for workmen compensation
ng welfare res for workers such cation, training, uction of houses, etc.	Share in the fund created out of profit	Sickness benefit, maternity benefit, death grant, injury benefit, etc.	Compensation for personal injury by accident
ded by the governing pon application by ployee	Every year to an employee who has completed 6 months' employment during that year	As decided by the governing body in accordance with the regulations provided in the Ordinance	Upon occurrence of an injury by accident and notice thereof to the Commissioner
ndustrial shment whose total e is Rs. ≥100,000	Company having: ≥50 workers employed at any time during a year or paid-up capital of Rs. ≥5 million at end of year or fixed assets of Rs. ≥20 million at end of year	Every industry or establishment where people are employed	Every industry or establishment where people are employed

The Next Step

Contact Junaidy Shoaib Asad (JSA) to discuss your needs.

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Junaidy Shoaib Asad, Chartered Accountants (JSA) February 2015