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Doing business in Pakistan 2014

Introduction

Doing Business in Pakistan guide aims to provide general information for organizations intending doing business and/or individuals intending to live and work in Pakistan, temporarily or permanently. The guide includes background facts about Pakistan and relevant information on business operations and taxation matters.

This guide is intended to assist organisations that are considering establishing a business in Pakistan either as a branch office, separate entity or as a subsidiary of an existing foreign company.

The information contained in this guide is believed to be accurate as of 1 July 2014. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader's particular circumstances.

Contents

1. Pakistan at a glance

Geography and climate

Pakistan is located in South Asia. It borders with four other Asian countries India on the south-east and Iran on the west, Afghanistan on the north-west and China in the north-east and the Arabia Sea in the south.

Located at 23°37' North and 61°76' East, Pakistan covers an area of about 803,940, out of which the land area is about 796,096 square kilometers.

The capital territory is Islamabad. Other major cities are Karachi, Lahore, Peshawar, Quetta, Rawalpindi, Hyderabad, Faisalabad, Multan and Sialkot.

The climate is continental, with slight variations depending on the location. Pakistan’s climate can be divided into four seasons; the hot dry spring, from March to May, summer rainy season from June to September, retreating monsoon in October and November and the cold dry winter from December to February.

The northern part of the country is generally cold as there exist snow-capped mountains and peaks while the southern part is dry with deserts all around.

Population

Pakistan is the sixth most populous country in the world with estimated population of 188 million (132 million, census 1998). The age structure is 0 – 14 years (41%), 15 – 64 years (56%) and 65 years or above (3%). The median age is 22 years.

Language and religion

The official language is English. The national language is Urdu. Regional languages include Sindhi, Balochi Punjabi and Pushto.

Islam is the religion of above 95% population. Others include Christian, Hindu and Sikh.

History

Pakistan emerged on the world map as an independent sovereign state on 14th August 1947, as a result of the division of the British Indian Empire.

The region traces its history back to at least 2,500 years before Christ, when a highly developed civilization flourished in the Indus Valley. Excavations at Taxila, Harappa, Mohenjo-Daro and Kot Diji have brought to light evidence of an advanced civilization flourishing here even in most ancient times.

Politics and government

Pakistan's official name is Islamic Republic of Pakistan, which has a federal parliamentary democratic system with a president as head of state and a popularly elected prime minister as head of government.

The bicameral federal legislature is the Parliaments, consisting of the Senate (upper house) and National Assembly (lower house). Members of the National Assembly are elected by universal adult suffrage (18 years of age in Pakistan).

The President of the Republic is elected for a five-year term by an electoral college consisting of members of the Senate and National Assembly and members of the provincial assemblies; the president is eligible for reelection. The Prime Minister of Pakistan, who is designated to exercise as the country's Chief Executive, is elected by the National Assembly members of which are elected by popular vote. Most commonly, the leader of the party or coalition with the most votes becomes the Prime Minister. The Prime Minister is responsible for appointing a cabinet as well as running the government operations.

Currency, time zone, weights and measures

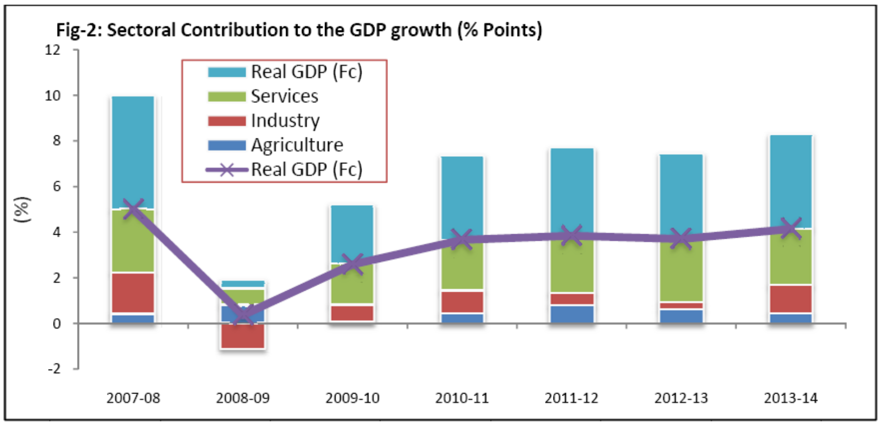
The basic unit of currency is Rupee. It divides into 100 paisa.

Pakistan Standard Time is GMT + 5.00 hours.

The metric system of weights and measures is applicable in country whereas temperate is measured in degree Celsius.

General Economic Outlook

The economy of Pakistan is classified as a developing economy. With various turndowns, the economy is now showing signs of stability with GDP growth rate in the fiscal year 2013-14 recorded as 4.14% comparing with 3.7% average of previous 3 year.



Source: *Pakistan Economic Survey 2014*

Major sectors of economy are agriculture, industry and services. Main crops are cotton, wheat, rice and sugarcane. Major industries are Textiles, Cement, Fertilizer, Steel, Sugar, Electric Goods, and Shipbuilding. Exports include Cotton, Textile goods, Rice, Leather items, Carpets, Sports Goods, Handi-crafts, Sea foods and Fruits. The country imports Industrial Equipment, Chemicals, Vehicles, Steel, Iron ore, Petroleum, Edible Oil, Pulses and Tea.

Potential sector for investments

Health care, education, information technology, energy, power generation, renewable energy, oil and gas exploration, engineering, automotive, industrial and commercial machinery, electronic and electrical equipment, telecommunication, mining, infrastructure, construction, transportation, agricultural machinery and equipment, fisheries, franchising, consumer goods.

2. Regulatory environment

PAKISTAN'S FOREIGN INVESTMENT POLICY FRAMEWORK & KEY REGULATORS

The Investment Policy of Pakistan and the Foreign Exchange Regulations Act, 1947 (FERA) governs the foreign direct investment coming into Pakistan. The Investment Policy is issued by the Board of Investment while the FERA has been issued by the State Bank of Pakistan.

The Investment Policy elaborates on capital requirements, composition of equity i.e. local and foreign components, licenses, work permissions, facilities and concessions in various sectors of the economy. FERA governs the injection of equity and loan capital into Pakistan and repatriation of funds outside Pakistan on account of divestment, dividend, interest on loans, royalty, technical fee etc.

The corporate regulator is the Securities & Exchange Commission of Pakistan (SECP). It is the sole body responsible for incorporation, monitoring and regulation of all types of companies incorporated under the Companies Ordinance, 1984 or operating in Pakistan.

Certain other laws, specifically the direct and indirect taxation laws also have a bearing on the investment coming into Pakistan. The Federal Board of Revenue is the key authority with whom foreign investors have to interact with.

The Investment Policy broadly classifies business activities into manufacturing and non-manufacturing. The non-manufacturing sector is further categorized under the following heads:

- Services
- Infrastructure
- Social Sector
- Agriculture

The revamped Investment Policy in 2013 further relaxed the conditions for non-manufacturing sector. On an overall basis this policy can be termed as liberal with enough provisions for facilitation and growth of foreign investment together with legislative protection.

SECURITY OF FOREIGN INVESTMENT

Legislative Protection

Investment coming into Pakistan is fully shielded under the following legislations:

- Foreign Private Investment (Promotion & Protection) Act,1976
- Protection of Economic Reforms Act, 1992

The Act of 1976 gives protection to entities with foreign private investment from takeover by the Government and grant rights of repatriation of investment and profits thereon along with equal treatment for doing business in Pakistan with entities having no foreign investment.

The Act of 1992 further strengthened protections to foreign investors and introduced polices to liberalize foreign investment policies and right to due process of law without any discrimination.

Bilateral Investment Treaties (BITs)

Pakistan has signed BITs with 47 countries, for the protection of foreign investments. The features of these BITs include:

- Encouragement of investments between the contracting parties
- Non-discrimination between local investors and foreign investors
- Equal/non-discriminatory treatment in case of compensation for losses owing to war, other armed conflicts or a state of national emergency

IMPORTANT FEATURES OF THE FOREIGN INVESTMENT POLICY

Permissible Businesses Sectors

Foreign direct equity investment is permissible in almost all sectors and types of businesses, except few on the negative list are restricted for foreign as well as local investors for reason of national interest and public safety

Businesses on negative list are Arms and ammunitions, High Explosives, Radioactive substances, Security Printing, Currency and Mint and Consumable Alcohol,

No prior permission; only registration

No prior permission is required for bringing in FDI into the country. The investment, however, has to be registered with the State Bank of Pakistan (SBP) so as to classify them as repatriable in nature.

No need for License

There is no requirement to obtain any license or permission from either the Federal or the Provincial Government, even by a foreign investor. Only registration of legal entity gives the right to commence commercial activities, except in few regulated sectors where approval of relevant regulatory bodies are required.

Cent Percent Foreign Ownership Allowed

The investment policy allows 100% foreign ownership in all permitted sectors except in Agriculture sector where 60% foreign ownership is permitted. In Corporate Agriculture farming 100% is ownership is allowed.

No Restriction as to Minimum Investment

There is no restriction of minimum foreign investment in all sectors i.e. manufacturing, non-manufacturing and services.

No Restriction upon Origin of Investment

There is no specific restriction as to the origin of investment. However, restriction on repatriation of dividend to Israel and India effectively serves as a limitation to the source of investment.

Continuity of Ownership

The investment laws of Pakistan do not place any restriction as to the perpetuity of the foreign investment and the ownership of business. It also does not require divestment to local investors after any period of time.

Right to Acquire Property & Equipment

A foreign investor can acquire property and equipment in the name of the entity and also enter into leasing and rental agreements.

FOREIGN EXCHANGE CONTROL

Foreign Exchange Transactions

Foreign exchange dealings are regulated under the FERA of SBP. Any transactions related to inward remittances of foreign exchange require reporting to SBP by the Authorized Dealers. Outward remittances of foreign exchange fall under either of the general or special permissions of SBP. Those under general permission are only subject to review while the ones under special permission have to be approved in prior by the SBP.

Availability of Currency and Exchange Rate

All permissible remittances into and out of Pakistan can be made in major foreign currencies at the exchange rate prevalent on the date of transaction.

Foreign Currency Account

Investors can open and operate foreign currency accounts for the purposes of managing their equity. Foreign currency brought into the country can be retained in a special foreign currency account and used subsequently only for the modes and in the manner prescribed. Otherwise, in general, all receipts have to be converted into Pak Rupees.

3. Business structures for foreign investors

FOREIGN COMPANY - LIAISON OFFICE OR BRANCH OFFICE

A foreign company, desiring to establish its office in Pakistan, may choose to open a Liaison or Branch Office as its extension in Pakistan.

Liaison Office
Foreign company can open liaison / representative offices in Pakistan. Such offices are established by foreign company for promotion of products, provision of technical advice and assistance, exploring the possibility of joint collaboration and export promotion.

A liaison office is not allowed to undertake any commercial or trading activities in Pakistan. Expenses have to be met through remittances received from its head office.

Branch Office
A foreign company having a valid contract with a public or private sector organization in Pakistan is allowed to set up a branch office in Pakistan for fulfilling its contractual obligations. The activities of the branch are confined to those as are stated in such contract. It cannot involve in any commercial or trading activities. It has to meet all its expenses out of contractual receipts and remittances from head office.

Registration of Liaison / Branch Office
A non-resident company while establishing its branch office or liaison office in Pakistan retains the constitutional framework under which it is incorporated. The process involves two stages, permission from BOI and registration with SECP.

Appointment of principal officer and resident officer is a mandatory requirement. The maintenance of local registered address is also required.

The permission has to be obtained from Board of Investment (BOI), Government of Pakistan. The application is submitted along with copies of the Contract(s) awarded to the foreign company in Pakistan. The BOI grant permission to the foreign company, after obtaining clearance from various agencies of Ministry of Interior (MOI), Government of Pakistan, for performance of such contract. It normally takes 7 to 8 weeks, after submission of the application. Initial permission is issued for 1 year, subsequent renewals are allowed for 3 – 5 years.

Within 30 days of BOI permission, specified information in the prescribed forms and related documents are required to be filed with the Securities & Exchange Commission of Pakistan, to register as foreign company in Pakistan.

Commencement of Operations
A Certificate of Registration issued by the Registrar of Companies entitles foreign entity to commence its operations in Pakistan.

Exit Mechanism
Exit mechanisms are relatively simple. These are however subject to statutory requirements under the Companies Ordinance, 1984 and taxation laws. The eligibility to repatriate proceeds under FERA is established upon of completion of the requirements of the relevant mechanism.

LIMITED LIABILTLY COMPANY

Limited liability Company with share capital is the type of company relevant for a non-resident investor for taking up commercial business activities and it has further three categories:

1. Private Limited Company
2. Single-Member Private Limited Company
3. Public Limited Company (unlisted or listed)

Private Limited Company
A private company is required to have a minimum of 2 members and 2 directors. It may commence its business immediately after its incorporation. A private company, through its Articles of Association (AoA) restricts the right to transfer its shares, limits the number of its members to fifty (50) and prohibits any invitation to the public to subscribe for its shares.

Single-Member Company
Single Member Company as is evident from the name is the type of the company with only one member who is the sole director of the Company as well. All the shares are vested with single member; however, it is mandatory for the single member to nominate an individual as nominee director, to act as director in case of his death, and an alternate nominee director who will act as nominee director in case of non-availability of nominee director. A corporate entity cannot become its member or director.

Public Limited Company
A public unlisted company must have at least 3 members and 3 directors. It does not become entitled to commence its business unless it obtains ‘Certificate of Commencement of Business’ from the Registrar of Companies, Securities and Exchange Commission of Pakistan. There is no restriction on the maximum number of members and transfer of shares.

A public company has option to list its securities/shares at any stock exchange in Pakistan. It must then have at least 7 members and 7 directors. Its minimum paid up capital should be Rs. 200 million and it is also required to make a public offer/issue of its shares which must be subscribed by at least 500 applicants. The post issue paid up capital is required to be at minimum Rs.500 million.

A comparison of the each type of companies is provided below:

Type of Company	Minimum number of shareholders / members	Maximum number of shareholders / members	Minimum number of directors	Transfer of Shares
Single Member Company	1	1	1	Restricted
Private Limited Company	2	50	2	Restricted
Public Limited Company (unlisted)	3	unlimited	3	No restriction
Public Limited Company (listed)	500	unlimited	7	No restriction

Incorporation of a Private Limited Company

A private limited company can be incorporated either as a wholly owned subsidiary of a body corporate or as joint venture company with local investors.

It is incorporated in Pakistan under the Companies Ordinance, 1984 and the Companies General Provisions and Form Rules, 1985. The process involves preparation and submission of constitution and identity documents of the investing company and directors of the proposed company, to the Securities and Exchange Commission of Pakistan (SECP). The process of incorporation starts from reservation of company's name and ends with the issuance of Certificate of Incorporation. The SECP usually does not require more than 1 week for incorporation, from the filing of the required documents and submission of prescribed fee.

Contractual Capacity & Right to Invest

Immediately upon registration with SECP, the entity becomes eligible for entering into contracts or arrangements with resident or non-resident entities or individuals.

The right to invest is an inherent right of a limited liability company within or outside Pakistan.

Commencement of Business

A Certificate of Incorporation issued by the Registrar of Companies is a conclusive proof of establishment of the entity in Pakistan. This also entitles a PLC to commence its business.

Exit Mechanism

Exit mechanisms available for foreign investors are i.e. transferring / selling of shares or winding-up/liquidation of the company. These are however subject to statutory requirements under the Companies Ordinance, 1984 and taxation laws. The eligibility to repatriate proceeds under FERA is established upon of completion of the requirements of the relevant mechanism.

4. Repatriation of investment and profit

The repatriations are subject to taxation and banking laws:

Divestment and repatriation of capital
The right to sell or transfer all or a part of its ownership interest to any resident or non-resident individual / entity is available. Foreign investors are permitted to remit the sale proceeds out of Pakistan, after review of the transaction details by the SBP. In this respect an important factor for consideration is that remittance of gross sale proceeds, exceeding the breakup value of original investment, will not be allowed.

Repatriation of Profits
Foreign investors are permitted to transfer net profits outside Pakistan in the shape of dividend. The dividend remittance, in case of company, is allowed on shares held on a repatriable basis i.e. those registered with SBP. The repatriation of net remittable profits by a branch office is also permitted under the FERA.

Royalty & Fee for Technical Services
Payment of royalty by manufacturing concern in Pakistan, to the foreign collaborator in consideration of "Licence to use the foreign manufacturers' patent/brand name for marketing the product, and FTS for engineering and technical services including assistance on manufacturing process, are permitted under foreign exchange regulations.

Non-manufacturing business is allowed to remit royalty to a foreign collaborator, including its parent company, in consideration of permission to use patents and brand names. Moreover, payment for technical services can also be made. However, there are regulations concerning the amount both in absolute and in percentage terms and for the period uptill which such payments in the life of the company can be made.

5. Borrowing options

Foreign Currency Borrowing

FERA allows foreign controlled companies (FCC) including branches of foreign companies, to obtain foreign currency loans of various terms and features including long term loans and short term subordinated foreign currency loans from foreign banks, its parent company and any of the group companies. These are in addition to suppliers' credit option allowed by the FERA.

Local Currency Borrowing

A subsidiary of foreign company can obtain Pak Rupee loans from local financial institutions both for working capital requirements and capital expenditures. These loans will however be subject to meeting the prudential regulations of the SBP.

Guarantees of Non-residents and Collateral held outside Pakistan

Similarly, a FCC is also permitted to obtain loan and overdraft facility against guarantees of non-residents, as well as against collateral held outside Pakistan.

6. The accounting and audit environment

Every company incorporated in Pakistan or operating as a branch / liaison office of foreign company in Pakistan is required to keep its accounting records in the manner prescribed under the Companies Ordinance, 1984 and prepare financial statements for a period not exceeding 12 months.

Audit of annual financial statements by the external auditors, as per local requirements, is also mandatory obligation for every company. Members of Institute of Chartered Accountants of Pakistan (ICAP) are qualified to conduct external audit of companies.

However, to provide a comprehensive framework of accounting and financial reporting that covers all entities of varying sizes and addressing the degree of public interest involved in such entities, three tiers accounting and financial reporting framework is applicable in Pakistan.

ENTITY SIZE	APPLICABLE FRAMEWORK
Economically Significant Entities An entity is considered to be economically significant if it satisfy any two conditions: (i) turnover in excess of Rs. 1 billion, excluding other income; (ii) number of employees in excess of 750; (iii) total borrowings (excluding trade creditors and accrued liabilities) in excess of Rs. 500 million	The Complete set of IFRS that is approved by the ICAP and notified by the SECP shall be applicable to these entities.
Medium-Sized Entities A Medium-Sized Entity (MSE) is an entity that: a) is not a listed company or a subsidiary of a listed company; b) has not filed, or is not in the process of filing, its financial statements with the Securities and Exchange Commission of Pakistan or other regulatory organisation for the purpose of issuing any class of instruments in a public market; c) does not hold assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity; d) is not a public utility or similar entity that provides an essential public service; e) is not economically significant entity on the basis of criteria as defined above; and f) is not a Small-Sized Entity (SSE) as defined below.	The Accounting and Financial Reporting Framework and Standards for Medium-Sized Entities issued by the ICAP and adopted by the SECP, are applicable to these entities.
Small-Sized Entities A Small-Sized Entity (SSE) is an entity that: (i) has paid up capital plus undistributed reserves (total equity after taking into account any dividend proposed for the year) not exceeding Rs.25 million; and (ii) has annual turnover not exceeding Rs.250 million, excluding other income.	The Accounting and Financial Reporting Framework and Standards for Small-Sized Entities issued by the ICAP and adopted by the SECP, are applicable to these entities.

7. Taxation

Taxation in regime in Pakistan includes direct and indirect taxes. Registration of every business and taxable individual with tax authorities is mandatory.

INCOME TAX IMPLICATIONS

Income Tax in Pakistan is governed by the Income Tax Ordinance, 2001 (the Ordinance). Like in many developed tax regimes of the world, income tax in Pakistan, also, is levied on the basis of residence of a taxpayer.

A resident person is required to pay income tax on its income earned both from inside Pakistan and outside Pakistan while a non-resident person has to pay income tax only on that income which has been earned from Pakistan, however, foreign income of a non-resident person shall also be subjected to income tax where his stay, in Pakistan, is more than three (03) fiscal years.

A company becomes resident based on geographical location of its management and control office. Therefore all of the income earned whether in Pakistan or outside the Pakistan will be subjected to income tax in Pakistan. In case of Branch Office, the same is chargeable to tax for income earned from Pakistan alone.

Tax Year
The fiscal year followed in Pakistan for tax purposes runs between July to June. However provisions are available whereby tax year end other than the June can be used, with prior permission of the concern Income Tax Commissioner, under the Ordinance.

Corporate Tax Rates
The corporate tax rate is 33% for the existing year of 2015 which would be reduced upto 30% by decreasing 1% every year. Tax rate shall be applied on net taxable profit for incomes subjected to normal tax.

In case of a small company, tax rate 25% is applicable. Criteria of a small company are as under;

i) If the company was incorporated on or after the first day of July, 2005.

ii) If the Paid-up capital & undistributed reserves are less than 25 million rupees

iii) If the Annual turnover is less than 250 million rupees (*See the definition of turnover*)

iv) If the number of employees are less than 250 and

v) If it is a new company and is not formed by splitting up or reconstitution of a company in existence

Turnover means:-

(a) the gross sales or gross receipts, exclusive of Sales Tax and Federal Excise duty or any trade discounts shown on invoices, or bills, derived from the sale of goods, and also excluding any amount taken as deemed income and is assessed as final discharge of the tax liability for which tax is already paid or payable;

(b) the gross fees for the rendering of services for giving benefits including commissions; except covered by final discharge of tax liability for which tax is separately paid or payable;

(c) the gross receipts from the execution of contracts; except covered by final discharge of tax liability for which tax is separately paid or payable; and

(d) the company's share of the amounts stated above of any association of persons of which the company is a member.

Tax Regimes

Under the Ordinance various tax regimes are specified. Two of the most common regimes are as follows:

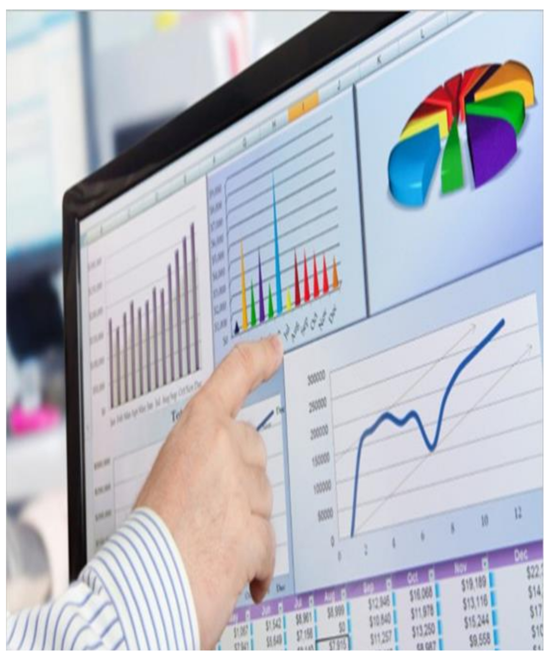
1. Normal Tax Regime
2. Final Tax Regime

Under the Normal Tax Regime income tax at the corporate rate is applicable on net profits (after the adjustment for admissible / inadmissible expenses, if any).

While under the Final Tax Regime tax at one stage on gross receipt / revenue is applicable. This tax will remain the same irrespective of the profitability levels. Applicability of the regime depends upon the nature / source of income.

Minimum Tax

Like tax models in various advanced economies the concept of minimum tax is also planted under the Ordinance which is applicable to income under normal tax regime. In case of losses or tax credits etc., wherein no normal tax is payable or the tax so payable is less than the 1% minimum tax then the Company will be required to pay at least up to the minimum tax. However, no minimum tax shall be applicable where the company declares gross loss before any deduction under the Ordinance.



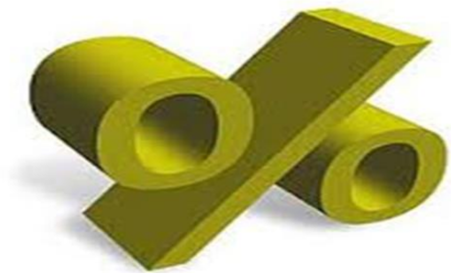
Alternate Corporate Tax

Under the Ordinance, Alternate Corporate tax @ 17% of the accounting income which would be applicable from Tax Year 2014 onward. The company, therefore, requires to pay tax highest of Corporate and Minimum tax. Following adjustments / deductions will be taken while computing accounting income before tax;

- Exempt income, Capital Gains on Securities,
- Incomes subject to Final Tax; Contractual receipts and exports,
- Income subject to tax credits under the Ordinance,
- Share from an Associate (Equity method of accounting).

Advance Payment of Tax

In Pakistan there is a concept of advance payment of tax before the return of income is actually filed. Advance tax is payable in four quarterly installments based on tax to turnover ratio assessed in its latest tax year. In the first tax year the advance is payable at the higher of 1% minimum tax of its quarterly turnover or tax on estimated quarterly net profit. Tax withholding suffered during the quarter is adjustable against the advance tax installment.



Tax Deductions

Concept of tax deduction at source is also a part of the taxation system in Pakistan. The term used here is withholding of taxes. The Company will be subjected to the withholding taxes at the time of realization / settlement of each head of income. The applicable tax withholding rates on various sources of income is as under:

Sources	Rate
Contractual Receipts	6% of receipt inclusive of service / sales tax
Support Services	6% of receipt inclusive of service / sales tax
Supplies	5% on import of goods/supplies
Commission	5% of gross commission

Tax Exemption

Provisions for the exemption from taxation are available under the Ordinance, which can be availed by filing the application with the tax authority in this respect. It can further be noted that exemption is available for income(s) subject to normal tax regime only. Exemption can be obtained under the following cases:

- Losses for the year / period,
- Brought Forward of losses of earlier years,
- Excess tax withholding during the year,
- Tax Refunds of earlier years.

Profit Repatriation

In case the Company repatriates profit through 'Dividend' it will be subject to tax @ 10%. In case of Double Tax Treaty (DTT) with any foreign country, respective rates apply.

Tax Deductions on Royalty and Technical Fee

The payment of Royalty and Fee for Technical Services (FTS) to a foreign collaborator, not having permanent establishment (office, branch, etc.) in Pakistan, is also chargeable to tax as per the following details:

- Royalty 15%
- FTS 15%

The above rates may vary depending upon the DTT.

Transactions with Associates

There are explicit provisions under the Ordinance as well as in the Tax Treaties, wherein adjustments can be made by the tax authorities in transactions with associates specifically with non-resident associates in case the same are not at arm's length. Fair market value therefore needs to exist in transactions with associates.

Tax Withholding Responsibilities
All Companies are required to withhold taxes while making their payments at varied rates under the Ordinance. The most common heads of payments are;

i) Salary payments
ii) Payments for Rent
iii) Payments for purchases of goods
iv) Payment for services
v) Payments for contracts / sub contracts
vi) Payment of commission & brokerage
vii) Dividends
viii) Royalty and Fee for Technical Services, etc.,

Tax so withhold are required to be deposited within a week time to the national exchequer. Periodical reporting is required to be made to the tax authorities as per the following details:

- Monthly Reporting of Tax withholding including non-withholding payments; 15th of next month
- Annual Reporting of Tax withholding only for salaries; within 2 months of the end of financial year.

Recently penal provisions have been made much harsh in cases of even slightest non-compliance. Moreover withholding of taxes is regularly monitored by the Income Tax Department.

Tax Incentives / Credits
The scheme of Normal Taxation is featured with certain tax incentives such as accelerated tax depreciation, investment allowance, carry forward of loss, which are briefly discussed as under:

Accelerated Tax Depreciation;
The tax law allows initial depreciation for plant & machinery and for buildings at a faster rate of 25% and 15% of cost. This is in addition to the normal depreciation which still can be claimed @ 15% and 10% of the remaining written down value. The initial depreciation of 25% and 15% along with the normal depreciation of 15% and 10% give an impetus to long term view of the available tax losses as a part of tax planning.

Investment Incentives;
Recently incentives have been granted to ‘Companies’ so as to enhance the capital base of the ‘Industrial Undertakings’ having varied criteria to meet. The same are not mutually exclusive. Briefly, the same is as under:

- Tax Credit of 10% and 20% of total investment is available up to the period ending 30th June 2015 and 2016 respectively.

- Tax Credit of 15% of tax payable is available in case of enlistment into in any registered Stock Exchange in Pakistan.

- Tax Credit up to 100% of tax payable is available in case of newly established Industrial Undertakings

- Tax Credit of 2.5% of tax payable is available in case of 90% sales made to the registered persons in the Sales Tax Act.

Some of the tax credits are available to both of the incomes either subject to Normal Tax Regime or to Final tax regime.

Carry forward of Losses;

The tax law allows carry forward of tax losses for up to six (06) Tax Years. Moreover the time limit does not apply in case of depreciation losses. Meaning thereby the depreciation loss can be carry forward till these are not completely set off.

Income Tax on Disposal of Investment

“Capital Gains” arises on disposal of shares of a company and is chargeable to income tax in Pakistan. The tax incidence varies with the period of holding of such shares as follows;

- Short term gain (sale within 12 months)	12.5%
- Short term gain (sale within 12 to 24 months)	10%
- Long term gain (sale after 24 months)	Exempt

Thin Capitalization

Where a foreign-controlled company has a foreign debt: foreign equity ratio in excess of 3:1 at any time during a tax year, disallowances of financial costs payments will be made on that part of the debt which exceeded the 3:1 ratio.

OTHER DIRECT TAXES

Besides income tax there are various other direct taxes some of the important ones are enumerated and briefly discussed as under:

- Capital Value Tax
- Property Tax
- Stamp Duties

Capital Value Tax

Capital Value Tax or CVT is a direct tax payable by the purchaser of the following assets.

i) Immovable properties
ii) Shares and other securities
iii) Import of cars not previously used in Pakistan
iv) Local purchase of new cars not previously used in Pakistan

CVT would continue to be payable on the assets where these have actually been purchased or either been gifted or exchanged or transfer by any means. Separate rates have been provided for residential and commercial properties based on the area of the property. CVT is payable only by the resident person in Pakistan.

Property Tax

The property tax is levied on the ownership of immovable properties in Pakistan based on the area of property. Rates of such property tax vary from one city to another and from one location to another. The value on which the property tax would be payable would include land of the factory along with the civil structure thereupon.

The rate of tax also depends on the fact that whether the subject property is classified as

i) Residential property,
ii) Commercial property or
iii) Industrial property

Stamp Duty

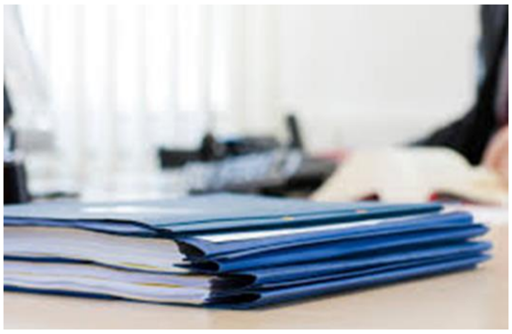
Stamp duty is a provincial levy. It is levied on various transactions at the time of execution transactions and documents. The rates of stamp duty are varied as per provincial schedules. Stamp duty also applies on issue and transfer of shares at the rate of 0.5% and 1.5% of the face value respectively.

GOODS AND SERVICES TAX

Sales Tax
In Pakistan, there are distinct laws for goods and services taxes. Sales tax on goods is levied under the Federal Law, i.e., Sales Tax Act 1990 and allied rules @ 17% of value of local supplies and import of goods. Services is a Provincial subject and taxed under Provincial Sales Tax on Services Laws @ 16% on identified taxable services rendered or provided by a registered person from his registered office or place of business in respective Province. At present, Sindh, Punjab and Khyber Puktunkhaw have enacted their respective Sales Tax Laws on Services. Besides, certain services are also excisable which are charged to Federal Excise Duty (FED) under Federal Excise Act 2005.

Person engaged in providing taxable services or supply of goods is liable to obtain registration under the said laws. In services tax laws, recipients of services are also exposed to tax on reverse charge basis.

Registered person is allowed sales tax adjustment as input tax suffered on the local procurement of goods, imports and services. The tax laws also provide benefits of zero rating and exemption from sales tax, subject to fulfillments of certain conditions. The law also offers exemption on import or purchase of plant and machinery by importers or industrial concerns. Sales tax withholding provisions are also available under the respective Sales Tax laws are liable to withhold sales tax as per prescribed rates at the time of making payment to their vendors / customers.



Federal Excise / Customs Duty
Federal excise duty on prescribed rate may be applicable on the goods produced or manufactured and imported into Pakistan. Federal Excise Duty is also applicable on prescribed services rendered or provided in Pakistan including the services originated outside but rendered in Pakistan.

Customs duty is applicable at the time of import of goods and collected by the Customs authorities. However, certain exemptions / concessions are also available from customs duty at import stage on the basis of meeting the prescribed criteria.

8. Employment of foreign nationals, visas and work permits

EMPLOYMENT OF FOREIGN NATIONALS

Employment of non-resident managers and experts of all nationalities is permitted to foreign investors. Moreover it can also enter into service contracts with such foreign personnel. Work Permits shall, however, have to be obtained for all such personnel from the BOI. For nationalities of some countries police reporting is also mandatory.

Foreign nationals working in Pakistan are allowed to maintain bank accounts and remit their salaries outside Pakistan, subject to local tax laws.

VISAS POLICY AND WORK PERMITS

Work Visas are granted to foreign technical and managerial personnel for the purpose of imparting technical know-how and skills to the local population. The nationals of counties found on Business Visa List (BVL) are eligible for work visa. The options for extension of work visa and conversion of visit visa into work visa or vice versa are also available.

Multiple-entries work visa is issued for duration up to 2 years or to the date of expiry of the applicant's passport, whichever is earlier. The Pakistani Missions in foreign countries grant work visas to the applicant, whereas extension is endorsed by the Regional Passport Office of the city where the expatriate is working, upon authorization by the Ministry of Interior.

All applications are processed through Board of Investment, upon submission of prescribed documents and processing fee. BOI after obtaining clearance from relevant departments of Government of Pakistan, which normally takes 4 weeks, issue a recommendation to Ministry of Interior for issuance of visa advice to the relevant Pakistani Mission.

9. Employer and employee obligations

SALARY TAXATION

Salary earned from employment exercised in Pakistan is subject to Pakistan tax. The tax rates are progressive in nature, the higher the salary; the higher is the tax rate. Salary rates ranges from 0% (salary up to Rupees 400,000/-) to 30%. Taxpayer is required to withhold tax while paying salary to the employees on their annual estimated salary.

Foreign income of the non-residents who become resident solely by reason of the employment in Pakistan is exempt if their stay here does not exceed three years cumulatively.

Gross salary received by the employee including all allowances and perquisites are taxable in Pakistan. Exception is medical expenses reimbursement or medical allowance up to 10% of basic salary where medical facilities are not provided by the employer.

The slab rates are:

S.no.	Taxable Income	Rate of tax
1.	up to Rs.400,000	0%
2.	> Rs.400,000 to Rs.750,000	5% of the amount exceeding Rs.400,000
3.	> Rs.750,000 to Rs.1,400,000	Rs.17,500 + 10% of the amount exceeding Rs.750,000
4.	> Rs.1,400,000 to Rs.1,500,000	Rs.82,500 + 12.5% of the amount exceeding Rs.1,400,000
5.	> Rs.1,500,000 to Rs.1,800,000	Rs.95,000 + 15% of the amount exceeding Rs.1,500,000
6.	> Rs.1,800,000 to Rs.2,500,000	Rs.140,000 + 17.5% of the amount exceeding Rs.1,800,000
7.	> Rs.2,500,000 to Rs.3,000,000	Rs.262,500 + 20% of the amount exceeding Rs.2,500,000
8.	> Rs.3,000,000 to Rs.3,500,000	Rs.362,500 + 22.5% of the amount exceeding Rs.3,000,000
9.	> Rs.3,500,000 to Rs.4,000,000	Rs.475,000 + 25% of the amount exceeding Rs.3,500,000
10.	> Rs.4,000,000 to Rs.7,000,000	Rs.600,000 + 27.5% of the amount exceeding Rs.4,000,000
11.	> Rs.7,000,000	Rs.1,425,000 + 30% of the amount exceeding Rs.7,000,000]

Provident Fund / Gratuity Fund

Companies or branch offices are required to maintain either or both of provident and gratuity fund. The payment received by the employee will be tax exempt once approval of the funds is granted by the tax authorities.

LABOUR MATTERS

Some of the important matters in respect to the labor are discussed below:

Sharing of profit with workers

Any industrial undertaking on meeting specified criteria shall share 5% of its profits with its workers. The allocation is made to the workers. Any unallocated amount is required to be deposited in the Government's fund for workers

Minimum wage of unskilled workers

At present the minimum monthly wage for an unskilled worker is Rupees 10,000/-.

Contribution to Workers Welfare Fund

In addition to any allocated balance to workers, all industrial establishments with profits of PKR 500,000 or more are required to transfer 2% of their profits to the Government's Workers Welfare Fund.

Social Security Contribution

The benefits provided to secured worker under this scheme are medical care, maternity benefit, death grant, pre-natal and post-natal care, injury benefit, disablement pension, disablement gratuity.

Social Security contribution is payable @6% by the employer for those employee having monthly wages up to Rupees 10,000/- per month. The amount of payment of Social Security for an employee could go up to a maximum of Rupees 600/-.

Employees Old Age Benefit (EOB) Contribution

Every business with five or more employed persons is required to get registered under the EOBI Act.

The EOB is to provide compulsory social insurance to employees. Under EOB Scheme, Insured Persons are entitled to avail benefit like, Old-Age Pension (on the event of retirement), Invalidity Pension (In case of permanent disability), Old-Age Grant (an Insured Person attained superannuation age, but does not possess the minimum threshold for pension) Survivor's Pension (in case an Insured Person is expired).

EOB is payable by the employer for every employee @ 5% of minimum applicable wages. The employee contribution is 1% of minimum applicable wages.

Professional Tax

Professional Tax is payable by every company listed or unlisted on the stock exchange(s) in Pakistan. The tax is payable based on the amount of its paid up capital and undistributed reserves. The levy of professional tax is progressive in nature as it increases with the increase in companies paid up capital and undistributed reserves. However the maximum payment is 100,000/-. In case of Branch Office the professional tax is levied on the basis of its Annual Turnover.

Beside the companies the professional tax is also payable by every taxable individual. The rate of professional tax in case of a salaried individual is 150/- for a year. It needs to be noted that payment of professional tax is a personal liability of every taxpayer himself.

10. Moore Stephens in Pakistan

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