DOING BUSINESS IN PAKISTAN

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Preface

Maqbool Haroon Shahid Safdar & Co. Chartered Accountants represents a group of hardworking, dedicated professionals. The firm is revived set up of Mohammad Maqbool & Co. Chartered Accountants which was founded by Muhammad Maqbool, FCA as an independent practice in March 1999, after leaving Sidat Hyder Qamar Maqbool & Co. Chartered Accountants. The firm is currently ranked amongst the technically strong firms, in Pakistan, which enjoys professional reputation within the business and industrial circles. Since its formation, its partners and managerial staff is renowned for their in depth practical hand on expertise in the areas of Taxation, Auditing, Accounting, Corporate Management and Financial Consultancy.

Since 2006, Malik Haroon Ahmad, FCA has joined hands with Mohammad Maqbool and formed Maqbool Haroon & Co. Chartered Accountants. Thereafter, at 1st October, 2009 Muhammad Safdar, ACA and Ali Saif Cheema, ACA [former partners of Muhammad Safdar & Co.] Tahir Ayyub, FCA, Shahid Mehmood Shaker, ACA [former partner of Qadeer & Co.].

Now the firm represents a dedicated team of professionals specializing in different areas and it is the key to our success. A close contact is maintained with our clients and they are constantly kept abreast about the rapidly changing business environment through counselling, publications, circulars and memos all the year round. The clients include small family businesses to large size national concerns.

Being a firm with a strong technical base, Maqbool Haroon Shahid Safdar & Co. Chartered Accountants is in a position to deliver creative and value added services to its clients through highly trained, skilled and motivated staff.

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Introduction

Geography

Area of Pakistan is 796,096 square kilometres located South Asia bordering the Arabian Sea between India on the east and Iran and Afghanistan on the west and China in the north. Its land boundaries total 7,266 km Afghanistan 2,430 km, China 580 km, India 2,240 km, Iran 909 km and Coastline is 1,046 km. It has terrain of Flat Indus plain in east, mountains in north and northwest, Balochistan plateau in west and desert in south.

Advantages of investing in Pakistan

Pakistan is located in the heart of Asia, it is the gateway to the energy rich Central Asian States, the financially liquid Gulf States and the economically advanced Far Eastern tigers. This strategic advantage alone makes Pakistan a marketplace teeming with possibilities. A large part of the workforce is proficient in English, hardworking and intelligent. Pakistan possesses a large pool of trained and experienced engineers, bankers, lawyers and other professionals with many having substantial international experience.

Pakistan is one of the fastest growing economies of the world having touched a GDP growth rate of 8.4% in 2005. Today Pakistan has over 170 million consumers with an ever growing middle class. Foreign Direct investment has risen sharply from an average of $300 million in the 1990s to over $3.7 billion in 2008-09. Fiscal deficit has declined from an average 7% of GDP in the 1990s to around 3% in recent years. And FOREX reserves have increased from $3.22 billion in 2000-01 to $11.6 billion in June 2009. Current investment policies have been tailor made to suit investor needs. Pakistan's policy trends have been consistent, with liberalization, de-regulation, privatisation, and facilitation being its foremost cornerstones.

The capital markets are being modernized, and reforms have resulted in development of improved infrastructure in the stock exchanges of the country. The Securities and Exchange Commission of Pakistan has improved the regulatory environment of the stock exchanges, corporate bond market and the leasing sector. Whilst the Federal Board of Revenue has facilitated structural reform in tax and tariffs and the State Bank of Pakistan has invigorated the banking sector into high returns on investment.

Constitution

Pakistan's independence was won through a democratic and constitutional struggle. Although the country's record with parliamentary democracy has been mixed, Pakistan, after lapses, has returned to this form of government. The constitution of the Islamic Republic of Pakistan, 1973 provides for a federal parliamentary system with a president as head of state and a popularly elected prime minister as head of government. Pakistan's four provinces enjoy considerable autonomy. Each province has a governor, a Council of Ministers headed by a chief minister appointed by the governor, and a provincial assembly. Members of the provincial assemblies are elected by universal adult suffrage. Provincial assemblies also have reserved seats for minorities. Although there is a well-defined division of responsibilities between federal and provincial governments, there are some functions on which both can make laws and establish departments for their execution. Most of the services in areas such as health, education, agriculture, and roads, for example, are provided by the provincial governments. Although the federal government can also legislate in these areas, it only makes national policy and handles international aspects of those services.

Communications

Internal and external communications and transportation are excellent. The telephone direct dialling system gives instantaneous international communication from both fixed and mobile units.

Language and currency

Pakistan's official language is English while National language is Urdu. The currency used is Rupee (Rs.)

Legal system

The Pakistan has inherited the well established legal system of British. After the partition on 14 August 1947 the country has developed its own legal framework but the basis and the fundamentals of the system is the same which were inherited by the Pakistan. Broadly speaking the constitution which is the main source of the law is also based upon the principles of British un written constitution, Democratic value and parliamentary system of government as the paramount importance in it. But after adding a new article in the constitution of Islamic republic of Pakistan all the Laws in forced in the country are to be made inconformity with the Islamic injunctions. The superior judiciary has the legal power to strike down the whole law or its clauses which are repugnant to Islamic values. More over the no legislation can be done by the legislative organ of the state which is otherwise repugnant to Islamic value.

Major exports and imports

Pakistan's major exports are textile yarn & fabrics ,articles of apparel and cloth accessories ,footwear ,leather and leather products ,guwar meal, guar gum and guwar protein extracts ,surgical instruments ,fruit ,arts resins and plastic material ,chemical material ,refractory cements ,mortars ,electric machinery and appliances ,refractory blocks and tiles ,viscose fiber (rayon fiber) and sports goods.

Major imports are textile machinery, electrical machinery, agricultural machinery, fiber, silk yarn, insecticides, plastics, medical products, iron, steel, aluminium and rubber

Government policy on foreign investment in Pakistan

The Federal Government has established guidelines for foreign investment in Pakistan. The Government recognises foreign investment makes a substantial contribution to the development of Pakistan's industries and resources, and its policy is to welcome and encourage long-term direct foreign investment that has beneficial economic effects.Under the current Investment Policy of Pakistan, business and service enterprises are divided into 3 main sectors or categories which are as follows:

- *Manufacturing or Industrial sector*

- *Non-Manufacturing Sector*
- *Other sectors*

Non-Manufacturing Sector is further categorized into the following:

- *Service Sector*
- *Infrastructure Sector and Social Sector and*
- *Agriculture*

Whereas other Sectors are categorized as:

- *Tourism*
- *Housing and Construction*
- *Information technology*

Whereby, the Government transpires the following attractive investment packages:

Policy Parameters	Manufacturing Sector	Non -Manufacturing Sectors		
		Agriculture	Infrastructure & Social	Services including IT & Telecom Services
Govt. Permission	Not required except 4 specified industries *	Not required except specific licenses from concerned agencies.		
Remittance of capital, profits, dividends, etc.	Allowed	Allowed		
Upper Limit of foreign equity allowed	100%	100%	100%	100%
Minimum Investment Amount (M $)	No	0.3	0.3	0.15
Customs duty on import of PME	5%	0%	5%	0-5%
Tax relief (IDA, % of PME cost)	50%	50%		
Royalty & Technical Fee	No restriction for payment of royalty & technical fee.	Allowed as per guidelines - Initial lump-sum upto $100,000 - Max Rate 5% of net sales - Initial period 5 years		

* Specified Industries:
- Arms and ammunitions
- High Explosives.
- Radioactive substances
- Security Printing, Currency and Mint.

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

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

Import controls

The Government levies customs duties, sales tax and income tax on some goods entering Pakistan. Customs clearance must be obtained to import any goods. There are import and quarantine controls on certain goods, including certain drugs, animals, plants, food, firearms and motor vehicles.

Exchange controls

Foreign exchange dealings are regulated under the Foreign Exchange Regulation Act 1947. Foreign currencies are made available to persons or companies doing business in Pakistan for all purposes under rules which have been clearly defined by the State Bank of Pakistan. There are no restrictions on availability of foreign currency for imports. Business houses can buy foreign currencies for all other commercial transactions like payments for export claims, commission payment to foreign agents on exports royalty / franchise, technical fees and dividends (as subsequently described in details), software license / maintenance / support fee, advertisement abroad including advertisement through electronic media, business travel, etc. Foreign investment in Pakistan enjoys full protection and repatriation facilities. The Foreign Private Investment (Promotion and Protection) Act, 1976 provides guarantees for repatriation of foreign investment to the extent of original investment, profits earned on such investment, and appreciation of capital.

Source of finance

The capital markets are being modernized, and reforms have resulted in development of improved infrastructure in the stock exchanges of the country. The Securities and Exchange Commission of Pakistan has improved the regulatory environment of the stock exchanges, corporate bond market and the leasing sector. Whilst the Federal Board of Revenue has facilitated structural reform in tax and tariffs and the State Bank of Pakistan has invigorated the banking sector into high returns on investment. Major sources of finance include local and foreign trading and savings banks, finance companies, building societies, credit unions and the stock exchange.

Business Structures

Types of business structures

The main business structures used in Pakistan are:

- *companies*
- *partnerships*
- *individual*
- *joint ventures*
- *trusts*
- *foreign branches*

Companies

The most common form of business structure is the limited liability company, referred to simply as a company. The shares in companies limit the liability of each shareholder to the amount invested and any amount uncalled on the shares. There are two types of companies: public limited company and private limited company. All companies must register with the Security Exchange Commission of Pakistan [SECP]. The private companies must have at least one shareholder, limit the, maximum number of shareholders to fifty, and not engage in any activity that would require the lodgement of a prospectus or other disclosure document (e.g. public offering of securities). The public companies whose shares are traded on a stock exchange are referred to as listed companies. Not all the public companies are required to be listed companies.

Governing documents

The Companies Ordinance, 1984 is basic law for the companies. It transpires the Memorandum of Association as the constitutive document of a company. The Ordinance contains basic and replaceable rules in the form of Articles of Association for the internal management of a company. Some of the rules are mandatory for all companies, and there are some special rules for single shareholder or single director companies.

Directors

The principal controlling body of a company is the Board of Directors, which is appointed by the shareholders. Minimum director requirement for public non-listed and listed company is three and seven respectively. A private company must have at least one director. Company directors have a statutory obligation to ensure the annual financial report gives a true and fair view of the financial position and performance of the company, and whether the company will be able to pay its debts as and when they become due and payable. The directors have an obligation to ensure the financial report has been prepared in accordance with Companies Ordinance, 1984 and International Financial Reporting Standards as applicable in Pakistan. Directors are also responsible for ensuring the company safeguards its assets and maintain a complete and adequate set of accounting records and statutory registers. Directors can face large fines or imprisonment for breaches of their duties, as well as a personal liability for debts incurred by the company in certain circumstances.

Forming a company

Investors may incorporate a company subject to the guidelines given by Securities and Exchange Commission of Pakistan.

Registration requirements and filing procedures for public securities

Any listed company intending to register securities (e.g. shares or debentures) for public sale must issue a prospectus that complies with the provision contained in the Companies Ordinance, 1984 and listing regulation by Stock Exchange of Pakistan.

The following entities (referred to as disclosing entities) are subject to continuous and periodic reporting requirements:

- *entities that are listed on a stock market or a securities exchange;*
- *entities raising funds pursuant to a prospectus;*
- *entities offering their securities as consideration for the acquisition of shares in a target company under a takeover scheme;*
- *entities whose securities are issued under a compromise or scheme of arrangement;*
- *borrowing corporations*

.
These entities must publicly disclose all information that is considered to have a material effect on the price or value of their securities in addition to other requirements of Listing regulation

Audit requirements and practices

Every public company, private company which is subsidiary of a public company or private company having paid-up capital of three million rupees or more, shall appoint auditor who is the Chartered Accountant within the meaning of Chartered Accountants Ordinance, 1961 to issue audit report on the financial statements of the company.

Shareholdings by non-residents

The State Bank of Pakistan has allowed issue, transfer and export of securities on repatriation basis subject to such conditions and to such non residents as mention in Foreign Exchange Manual.

Foreign companies

If a foreign company wishes to carry on business in Pakistan, or if it wishes to issue or sign negotiable instruments, it must apply for registration as a registered foreign company with Securities and Exchange Commission of Pakistan. A registered foreign company must also appoint a local person who is:

- *A resident of Pakistan and*
- *Authorised to accept, on behalf of the foreign company, service of notices.*

Partnerships

Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Partnership remains a common mode of business enterprise in Pakistan for small to medium business set-ups. Partnerships are normally formed where there is a desire to have some structural flexibility along with some formality of relationship between partners. There is no compulsory requirement for registration of a partnership in Pakistan. Moreover, local partnership is not compulsory as to Gulf countries. Nonetheless some litigation and tax related consequences and advantages are linked to a registered partnership.

Legal regime for establishment and regulation of partnerships in Pakistan is stated in the Partnership Act, 1932.

Individual

An individual on his/her own account carries out the business or profession. No formal procedure or formality is required for setting up a sole proprietary.

Joint ventures

Joint ventures are an appropriate vehicle of carrying out a business in Pakistan in cases where two or more parties do not intend to form a separate entity to deal with a venture, however, they merely agree to act together in a specific manner and under certain terms and conditions. In such a case each party retains its own individual identity which may be in the form of a company or a partnership. In a joint venture, therefore, these parties agree to enter into a consortium or a joint venture agreement. Relationship between the parties is created on the terms and conditions as stated in this agreement and no relationship that is beyond the ambit of this agreement comes into existence. Rights, liabilities etc. of each contracting party are also determined according to the terms and conditions of the agreement.

There is no requirement under the law of Pakistan for registration of such Agreements. However, the entities which form Joint Venture may themselves be required to be registered under the relevant law.

Trusts

Trusts may be public (e.g. for a specific purpose or charity) or private (for benefit of private Individuals) and may be formed as either non-fixed (where all or some interests in the trust are at the discretion of the trustee such as discretionary trusts or hybrid trusts) or fixed trusts (where the interests in the trust are fixed such as unit trusts). Unit trusts are often used for public investments in the form of property trusts or cash management trusts.

Branch office

Foreign companies have to apply for permission to establish branch/liaison office in Pakistan.

Taxation

Introduction

Federal taxes in Pakistan like most of the taxation systems in the world are classified into two broad categories that are direct and indirect taxes.

Generally, any income received / accrued in or deemed to be received / accrued in from any source is liable to tax in Pakistan. However, income remitted to Pakistan by resident companies, non-resident companies and non-resident individuals is exempted from tax. Income / Profits generated by an assessee from the following setups are exempt from tax:

- *An industrial undertaking, which is engaged in manufacturing of goods or material transformation, conversion, transmission or distribution or supply of electrical energy or hydel power;*
- *An undertaking approved by FBR;*
- *A setup in areas specified by FBR;*
- *Export of software developed, income from export of computer software, IT services or IT enabling services including medical transcriptions, remote monitoring, graphic designing, accounting services, HR services, data entry operators, insurance claims services in Pakistan.*

Certain capital gains are also brought within the income tax base. The Government also levies General Sales Tax (GST) which is imposed on the purchase of most goods and services by person, or on goods and services for use in Pakistan. The export of goods and services is subject to zero rate GST. All Provinces levy stamp duties, payroll tax, and land taxes. There are also some duties and tariff levied by the Government.

Federal income taxation law and administration

Income Tax Ordinance, 2001 is the main income tax law, which have same power in all of four provinces of Pakistan.

Fiscal year

Taxable income (defined below) is ordinarily determined by reference to the year ending 30, June which is the standard financial year of Pakistan. However, under Income Tax Ordinance the board has power to specify special income year for any taxpayer, class of taxpayers or source of income.

Taxpayers

Taxpayer means a person who drives any income, which is chargeable to tax under any provision of the Income Tax Ordinance, 2001. The following persons shall also be treated as taxpayers:

- *Representative of persons who drives an income which is chargeable to tax;*
- *Any person who is required to deduct or collect tax at source;*
- *Any person who is required to furnish a return of income; and*

- *Any person who is required to pay tax under the Income Tax Ordinance, 2001.*

In this context the person includes an individual, a company or association of persons incorporated, formed, organised or established in Pakistan or elsewhere, the Federal Government, a foreign government, a political subdivision of a foreign government, or public international organisation. Association of persons is taxed separately from its member.

Taxable income

The taxable income of a person for a tax year shall be the total income of the person for the year reduced (but not below zero) by the total of any deductible allowances such as Zakat paid by the person in a tax year , Workers' Welfare Fund paid and Contribution to Workers' Participation Fund. The total income of a person for a tax year shall be the sum of the person's income under each of the heads of income for the year namely:

- *Salary;*
- *Income from Property;*
- *Income from Business;*
- *Capital Gains; and*
- *Income from Other Sources.*

Payment of tax

A taxpayer's taxable income is annually assessed on the lodgement of an income tax return. Their liability to income tax is calculated based on the amount of taxable income returned. The tax liability or the balance of the tax liability is generally paid at or after the lodgement of the income tax return. Most taxpayers are subject to some form of prepayment of income tax. Salary and wage earners are subject to income tax deductions from all payments they receive from employers subject to conditions under the Income Tax Ordinance, 2001 and Income Tax Rules, 2002. When business taxpayers receive payment for goods and/or services, they may have tax deducted by the payer. The instalment payments are generally offset against the taxpayer's annual tax liability as determined in its annual tax return. Any amount remaining after the liability is refunded to the taxpayer. Any shortfall is made up by an additional tax payment from the taxpayer. Non-residents deriving Pakistan-sourced dividend, interest and royalty income usually have withholding tax deducted at source. The amount of tax withheld is determined according to whether the recipient is resident in a country that has a Double Tax agreement with Pakistan.

Lodgement of returns

All persons having national tax numbers (NTN) are required to lodge returns annually, irrespective of category of tax payer.

Residence and source

Pakistani residents are generally subject to tax on all income, irrespective of its source (i.e. on worldwide income). By contrast, non-residents are only subject to income tax on Pakistan sourced income. The determination of an entity's tax residency and/or liability to Pakistani income tax may be affected by the relevant Double Tax Agreements.

- *Residence of Individuals: A person shall be a resident for a tax year, if in the year is in Pakistan for a period / periods amounting 183 days or more.*
- *Residence of Companies: A company shall be a resident company for a tax year if it is incorporated or formed by or under any law in force in Pakistan, the control and management of the affairs of the company is situated wholly in Pakistan at any time in the year; or it is a Provincial Government or local authority in Pakistan.*
- *Residence of Partnership: A partnership shall be resident if the control and management of its affairs is situated wholly or partly in Pakistan during the tax year.*

Source of income

Business income of a non-resident person shall be Pakistan-source income to the extent to which it is directly or indirectly attributable to –

- *A permanent establishment of the non-resident person in Pakistan.*
- *Sales in Pakistan of goods merchandise of the same or similar kind as those sold by the person through a permanent establishment in Pakistan.*
- *Other business activities carried on in Pakistan of the same or similar kind as those effected by the non-resident through a permanent establishment in Pakistan or any business connection in Pakistan.*
- *Where the business of a non-resident person comprises the rendering of independent services (including professional services and the services of entertainers and sports persons), the Pakistan-source business income of the person shall include [in addition to any amounts treated as Pakistan-source any remuneration derived by the person where the remuneration is paid by a resident person or borne by a perman Paid by a resident person, except where the royalty is payable in respect of any right, property, or information used, or services utilised for the purposes of a business carried on by the resident outside Pakistan through a permanent establishment; or* permanent establishment in Pakistan of a non-resident person.]

A dividend shall be Pakistan-source income if it is paid by a resident company. Profit on debt shall be Pakistan-source income if it is –

- *Paid by a resident person, except where the profit is payable in respect of any debt used for the purposes of a business carried on by the resident outside Pakistan through a permanent establishment; or*
- *Borne by a permanent establishment in Pakistan of a non-resident person.*

A royalty shall be Pakistan-source income if it is –

Borne by a permanent establishment in Pakistan of a non-resident person

.
Rental income shall be Pakistan-source income if it is derived from the lease of immovable property in Pakistan whether improved or not, or from any other interest in or over immovable property, including a right to explore for, or exploit, natural resources in Pakistan. A pension or annuity shall be Pakistan-source income if it is paid by a resident or borne by a permanent establishment in Pakistan of a non-resident person.

A technical fee shall be Pakistan-source income if it is –

- *Paid by a resident person, except where the fee is payable in respect of services utilised in a business carried on by the resident outside Pakistan through a permanent establishment; or*
- *Borne by a permanent establishment in Pakistan of a non-resident person.*

Any gain arising on the disposal of shares in a resident company shall be Pakistan-source income. Any amount not mentioned in the preceding sub-sections shall be Pakistan-source income if it is paid by a resident person or borne by a permanent establishment in Pakistan of a non-resident person. An amount shall be foreign-source income to the extent to which it is not Pakistan-source income.

In certain instances, the relevant Double Tax Agreement may also impact the determination of where an item of income is sourced. For example, business income, income from property, dividend, interest and royalty income can be impacted by terms of the Double Tax Agreement. *[http://www.pakboi.gov.pk/intl-agree.htm]*

Taxation of partnerships, trusts

Partnership falls under the definition of firm in Income Tax Ordinance, 2001. An association of persons shall be liable to tax separately from the members of the association and where the association of persons has paid tax, the amount received by a member of the association in the capacity as member out of the income of the association shall be exempt from tax. While the specified income of trust is exempt from tax. However they are required to lodge income tax returns.

Taxation of companies

Taxation of Profits: The taxable income for companies is determined on the same basis as for individual taxpayers, with allowable deductions set off against gross assessable income. However, whilst individuals are assessed on a sliding, progressive scale of tax, companies are taxed at a rate of 35% except for small companies where it ranges from 20% to 35%, regardless of whether the company is controlled by resident or non-resident shareholders. Where allowable deductions exceed assessable income, the company incurs a loss. Losses may be carried forward for proceeding six years to be set off against income derived in future income years. While unabsorbed depreciation may be carried forward for indefinite period.

Dividend Withholding Tax: Where a dividend is paid to a shareholder, the dividend will be subject to dividend withholding tax. The general rate of dividend withholding tax is 10% of the gross amount.

Repatriation of Income: Subject to the provision of the Foreign Exchange Regulation Act, 1947:

- *A foreign investor in an industrial undertaking established after the 1st day of September, 1954, and approved by the Federal Government may at any time repatriate in the currency of the country from which the investment was originated;*
- *Foreign private investment to the extent of original investment;*
- *Profits earned on such investment; and*
- *Any additional amount resulting from the reinvested profits or appreciation of capital investment;*
- *A creditor of an industrial undertaking referred above may repatriate foreign currency loans approved by the Federal Government and interest thereon in accordance with*

the terms and conditions of the said loan; and Provided that nothing in this section shall affect the terms of the permission to make such investment granted to a foreign investor before the commencement of this Act.

Foreign currency loan interest is exempt from withholding tax. Moreover, dividend can be remitted to foreign investor through dealer authorised by State Bank of Pakistan.

Taxation of Branches: The Pakistan sourced income of Pakistani branches of foreign companies is subject to income tax at the ordinary corporate rate of tax. The taxable income is calculated as if the branch was a separate entity from the foreign company.

Minimum Tax, Tax on Imports and Tax on Payment for Goods and Services shall not apply to companies operating Trading Houses which-

(i) have paid up capital of exceeding Rs.250 million;
(ii) own fixed assets exceeding Rs.300 million at the close of the Tax Year;
(iii) maintain computerized records of imports and sales of goods;
(iv) maintain a system for issuance of 100% cash receipts on sales;
(v) present accounts for tax audit every year; and
(vi) is registered with Sales Tax Department:

Provided that the exemption under this clause shall not be available if any of the aforementioned conditions are not fulfilled for a tax year.

Interest deductions

Interest paid on loans and other debts is deductible to the extent it relates to borrowings made for income producing purposes. Thin capitalisation rules apply to reduce the deduction available where the taxpayer is a foreign entity operating in Pakistan, a foreign controlled Pakistani entity or a Pakistan resident with foreign business investments. In each of these cases, the tax deduction for interest may be reduced if the taxpayer's debt exceeds the levels permitted under the thin capitalisation provisions.

Taxation of capital gains

Subject to this Ordinance, a gain arising on the disposal of a capital asset by a person in a tax year, other than a gain that is exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head "Capital Gains". The gain arising on the disposal of a capital asset by a person shall be computed in accordance with the following formula, namely:–

$$A - B$$

Where –
A is the consideration received by the person on disposal of the asset; and
B is the cost of the asset.

Where a capital asset has been held by a person for more than one year, the amount of any gain arising on disposal of the asset shall be computed in accordance with the following formula, namely:–

Gain on disposal x ¾

.

For the purposes of determining component B of the formula in subsection no amount shall be included in the cost of a capital asset for any expenditure incurred by a person (a) that is or may be deducted under another head of income or (b) that is referred to in section 21 of Income Tax Ordinance,2001.

Where the capital asset becomes the property of the person –

- Under a gift, bequest or will;
- By succession, inheritance or devolution;
- A distribution of assets on dissolution of an association of persons; or
- On distribution of assets on liquidation of a company the fair market value of the asset, on the date of its transfer or acquisition by the person shall be treated to be the cost of the asset.

Interaction with international tax regime

Pakistan is a signatory to a number of Double Taxation Avoidance Agreements with many countries such as Austria, Malta, Bangladesh, Mauritius, Belarus, Netherlands, Belgium, Nigeria, Canada , Norway, China, Oman, Denmark, Philippines, Finland, Poland ,France, Qatar,Germany, Romania, Greece, Saudi Arabia, Hungary, Singapore, India, South Africa, Indonesia, Sri Lanka, Iran, Sweden, Ireland,Switzerland, Italy, Syria, Japan, Thailand, Jordan,Tunisia, Kazakhistan, Turkey, Kenya, Turkmenistan, Republic of Korea, U.A.E., Kuwait, U.K., Lebanon, U.S.A., Libyan Arab Republic, Uzbekistan, Malaysia, Azerbaijan

Taxation of individuals

Residents: Resident individuals except salaried taxpayers are assessed to tax on taxable income from 1 July 2009 according to the following scales:

Income tax payable

S. No.	Taxable income	Rate of tax.
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs.100,000	0%
2.	Where the taxable income exceeds Rs.100,000 but does not exceed Rs.110,000	0.50%
3.	Where the taxable income exceeds Rs.110,000 but does not exceed Rs.125,000	1.00%
4.	Where the taxable income exceeds Rs.125,000 but does not exceed Rs.150,000	2.00%
5.	Where the taxable income exceeds Rs.150,000 but does not exceed Rs.175,000	3.00%
6.	Where the taxable income exceeds Rs.175,000 but does not exceed Rs.200,000	4.00%
7.	Where the taxable income exceeds Rs.200,000 but does not exceed Rs.300,000	5.00%
8.	Where the taxable income exceeds Rs.300,000 but does not exceed Rs.400,000	7.50%
9.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000	10.00%
10.	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.600,000	12.50%
11.	Where the taxable income exceeds Rs.600,000 but does not exceed Rs.800,000	15.00%
12.	Where the taxable income exceeds Rs.800,000 but does not exceed Rs.10,00,000	17.50%
13.	Where the taxable income exceeds Rs.10,00,000 but does not exceed Rs.13,00,000	21.00%
14.	Where the taxable income exceeds Rs.13,00,000	25.00%]

Provided that where income of a woman taxpayer is covered by this clause, no tax shall be charged if the taxable income does not exceed Rs.125, 000.

Where the income of an individual chargeable under the head “salary” exceeds fifty percent of his taxable income, the rates of tax to be applied shall be as set out in the following table namely: -

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

14.	Where the taxable income exceeds Rs.1,700,000 but does not exceed Rs.1,950,000,	14.00%
15.	Where the taxable income exceeds Rs.1,950,000 but does not exceed Rs.2,250,000,	15.00%
16.	Where the taxable income exceeds Rs.2,250,000 but does not exceed Rs.2,850,000,	16.00%
17.	Where the taxable income exceeds Rs.2,850,000 but does not exceed Rs.3,550,000,	17.50%
18.	Where the taxable income exceeds Rs.3,550,000 but does not exceed Rs.4,550,000,	18.50%
19.	Where the taxable income exceeds Rs.4,550,000 but does not exceed Rs.8,650,000,	19.00%
20.	Where the taxable income exceeds Rs.8,650,000.	20.00%

Provided that where income of a woman taxpayer is covered by this clause, no tax shall be charged if the taxable income does not exceed Rs.260, 000. Provided further that where the total income of a taxpayer marginally exceeds the maximum limit of a slab in the table, the income tax payable shall be the tax payable on the maximum of that slab plus an amount equal to –

- *20% of the amount by which the total income exceeds the said limit where the total income does not exceed Rs. 550,000.*
- *30% of the amount by which the total income exceeds in each slab but total income does not exceed Rs. 1,050,000.*
- *40% of the amount by which the total income exceeds in each slab but total income does not exceed Rs. 2,250,000.*
- *50% of the amount by which the total income exceeds in each slab but total income does not exceed Rs. 4,550,000.*
- *60% of the amount by which the total income exceeds in each slab but the total income exceeds Rs. 4,550,000.*

Non-Residents: Non-resident individuals are assessed to tax on taxable income by using same tax rates as above except following. The rate of tax on payments to non residents shall be 15% of the gross amount of the royalty or fee for technical services. The rate of tax shall be:

- *in the case of shipping income, 8% of the gross amount received or receivable; or*
- *in the case of air transport income, 3% of the gross amount received or receivable.*

The rate of tax to be deducted from a payment in full or part including a payment by way of advance to a non-resident person on the execution of –

- *a contract or sub-contract under a construction, assembly of installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such project; or*
- *any other contract for construction or services rendered relating thereto; or*
- *a contract for advertisement services rendered by T.V. Satellite Channels*

shall be 6% of the gross amount payable. The rate of tax to be deducted from payments in respect of insurance premium or reinsurance premium to a non-resident person shall be 5% of the gross amount paid. The rate of tax to be deducted from every exporter or an export house making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person for the rendering of or providing of services of stitching, dying, printing, embroidery, washing, sizing and weaving, shall at the time of making the payment, deduct tax from the gross amount payable at the rate of 10%.

Goods and services tax

The general sales tax (GST) is levied on the supply of most goods and services in Pakistan and on goods imported into Pakistan. It also taxes some other transactions including dealings in property and rights that are not goods. The GST rate is currently 16% of the GST exclusive price of the transaction. GST is a value-added tax which has the effect of taxing the end user of the goods or service. GST is paid by the supplier of the goods or service, but the price charged for a good or service usually includes the GST payable by the supplier (GST-inclusive price). In addition, the supplier is entitled to credits for any GST that was paid on inputs involved in the supply. Therefore, GST is paid on the value of taxable supplies. Some transactions are input taxed, such that the supplier does not charge GST on the transaction. However, the supplier will also not be entitled to credits for the GST paid on their purchases. Some supplies are GST-free, such that the supplier does not charge GST on the supply, although the supplier will be entitled
to credits for the GST paid on their inputs. There are certain imports or supplies which are exempt from GST such as live animals and live poultry, Meat of bovine animals, sheep and goat, excluding poultry and offal, whether or not fresh, frozen or otherwise, preserved, Red chillies excluding those sold, in retail packing bearing brand names and trademarks, Cereals and products of milling industry, Surgical tapes, Currency notes, bank notes, shares, stocks and bonds, Computer software etc. Entities that are required to pay GST and/or claim input tax credits are required to get register for sales tax. The rate of GST for exported items and supply against international tender is zero percent.

Customs duty

Pakistan Customs is the guardian of Pakistan borders against movement of contra band goods and is facilitator of bona fide trade. It provides a major source of revenue to the Government of Pakistan in the form of taxes levied on the goods traded across the borders. It also helps to protect the domestic industry, discourage consumptions of luxury goods and stimulate development in the under -developed areas.

Except as hereinafter provided, customs duties shall be levied at such rates as are prescribed in the First Schedule or under any other law for the time being in force on,-

- *goods imported into Pakistan;*

- *goods brought from any foreign country to any customs station, and without payment of duty there, transhipped or transported for, or thence carried to, and imported at any other customs-station; and*
- *goods brought in bond from one customs station to another.*

Customs duty is imposed on various goods imported into Pakistan including textiles, clothing, footwear and motor vehicles with the duty generally expressed as a percentage of the free on board (FOB) value of the goods. Many goods are exempt from duty, and concessions may also be available where the importation of goods does not have an adverse effect on the market for locally produced goods.

Federal excise duty

Description of Goods	On Retail Price	Addl. value	Specific in Rupees	Specific in US $
Aerated Waters	12%			
Beverages concentrate		50%		
Cement			750 per M. ton	12.5 per M. ton
Cigarettes: a) locally produced cigarettes if their retail price exceeds six rupees and seventeen paisas per ten cigarettes but does not exceed fourteen rupees per ten cigarettes. b) locally produced cigarettes if their retail price does not exceed six rupees and seventeen paisas per ten cigarettes.			a) Two rupees and sixty three paisas per ten cigarettes plus sixty nine percent incremental rupee or part thereof b) Two rupees and sixty three paisas per ten cigarettes	a) 0.04 per ten cigarettes plus sixty nine percent per incremental dollar or part thereof c) 0.04 per ten cigarettes
POL products			0.06-0.88 per Ltr.	
Lubricating Oil in Bulk			7.15 per Ltr.	0.12 per Ltr.
Natural Gas in gaseous State			5.09 per MMBTU	0.08 per MMBTU
Edible Oil / Ghee / Vegetable Oil		15%		
LNG			17.18 / 100 cubic meter	
Services (5% - 15% of amount paid)				

** Company having: (1) Paid up capital of Rs. 25.0 million*
(2) Turnover of Rs 200.0 million
(3) Incorporated after July 1, 2005

Grants and Incentives

In order to attract foreign investment, the Government of Pakistan has announced various incentive schemes and has given tax exemptions to the Companies who intend to invest in Pakistan. Major tax exemptions are as under:-

- *Interest Income on foreign currency accounts held with authorized banks by resident of Pakistan.*
- *Interest in case of non-resident person from Islamic mode of financing*
- *Profit from educational institutes*
- *Profit from computer training and educational centres*
- *Income from pioneer industrial undertakings*
- *Income from industrial undertaking in Export Processing / Special Industrial Zones*
- *Income from fruit processing*
- *Export of computer software or IT services or IT enabled services.*

Protection of Intellectual and Industrial Property

Copyright

Copyright is protected in Pakistan by The Copyright Ordinance, 1962 and the copyright owner has the exclusive rights to license others in regards to copying the work; performing it in public; broadcasting, publicising and adapting the work. Copyright materials created overseas are protected under the Pakistan as a result of Pakistan's obligations under WTO, universal copyright convention and burn convention.

Trade marks

The Trade Marks Ordinance, 2001 gives the exclusive use of a registered trademark to its registered proprietor. Owners of trademarks in other countries must register them in Pakistan to benefit from the protection.

Business names

The Companies Ordinance, 1984 provides that trade names registered in Pakistan cannot be used by others in business.

Patents

A patent owner has the right to decide who may or may not use the patented invention for the period in which the invention is protected. The patent owner may give permission to, or license, other parties to use the invention on mutually agreed terms. The owner may also sell the right to the invention to someone else, who will then become the new owner of the patent. Once a patent expires, the protection ends, and invention enters the public domain, that is, the owner no longer holds exclusive right to the invention, which becomes available to commercial exploitation by others.

The Patents Act 1990 gives a patent holder the exclusive right to exploit the invention or allow others to do so.

Immigration

Work Visas are granted to foreign technical and managerial personnel for the purpose of imparting technical know-how and skills to the local population.

A committee under the chairmanship of Secretary, Ministry of Investment / Board of Investment, periodically considers and decides the cases of grant or extension of Work Visas and the conversion of Business Visas to Work Visas.

Companies that need to hire foreign nationals should submit a request along with the prescribed application form and documents to IF Wing BOI Islamabad. For the convenience of companies based in the province of Sindh, BOI Karachi Office has also been authorized to process Work Visa cases prescribed form can be obtained from BOI Offices at Islamabad and Karachi or can be downloaded from the above link.

As per Visa Policy of the Government of Pakistan, cases of grant or extension of Work Visas, and conversion of Business Visas to Work Visas are processed within 4 weeks.

For multiple entries Work Visa, application has to be submitted to BOI which processes and recommends the case to the Ministry of Interior after a period of 4 weeks from the date of processing of the application. The Ministry of Interior subsequently authorizes Pakistani diplomatic missions abroad to endorse the visa. The multiple entries Work Visa has validity for either one year or till the life of the passport whichever is earlier. Such a visa is extendable on yearly basis.

The cases of extension of Work Visas and conversion of Business Visas to Work Visas are authorized and issued by the Ministry of Interior on the recommendations of BOI. Such cases are endorsed by Regional Passport Office of the city where the expatriate is working. These visas are also extendable on yearly basis.

Applications for extension of three months provisional Work Visa are recommended by BOI directly to the Regional Passport Offices.

Conversion of business visa

Conversion of Business Visa into Work Visa and vice versa has been allowed on payment of conversion fee of $100/.

Registration of foreigners with the police

It has been decided to exempt all foreigners who have been issued work visas from registration with the police, except for nationals of countries on the negative list.

Even in the case of countries on the negative list (except for Indians and foreigners of Indian origin), foreign nationals in the managerial category who are issued work permits/visas will also be exempted from police registration.

Fast track business visas for businessmen / investors

To facilitate travel to and staying in Pakistan for foreign businesspersons and investors, business visa policies have been considerably relaxed. Missions abroad are authorized to grant five years validity (multiple entry) visa within 24 hours to businessmen of 66 countries of Business Visa List (BVL), with the duration of each stay would be restricted for three months, on production of any of the following documents:

- *Recommendation letter from Chamber of Commerce & Industry of the respective country of the applicant.*
- *Invitation letter from business organization duly recommended by the concerned Trade Organization/Association, in Pakistan.*
- *Recommendatory letter by Honorary Investment Counsellors of BOI.*
- *Recommendatory letter from Pakistani Commercial Attaché posted in Pakistan High Commissions / Embassies / Consulates General abroad.*

There are certain countries with whom Pakistan has Visa Abolition Agreement. Moreover, there are also some countries which fall under the requiredment of Policy Registration.
[www.pakboi.gov.pk/pdf/Aboltion_Agreement.pdf],
[http://www.pakboi.gov.pk/pdf/Registeration%20Required.pdf]

Entry visa to businessmen of remaining countries

Missions abroad can grant one month validity and stay (Multiple) entry visa to the businessmen of remaining countries (except countries not recognized by Pakistan) subject to the production of afore-mentioned requisite documents. Such applicants can apply from their own country or place of legal residence to our Ambassador/High Commissioner/Head of Mission.
[www.pakboi.gov.pk/visa-sec.htm]

Visa on arrival (VOA) to businessmen of 66 countries

Visa On Arrival for 30 days validity and stay will be given to the businessmen of 66 countries of Business Visa List (BVL) mentioned above on production of any of the documents as for entry business visa by Missions for businessmen (please see above).
[www.pakboi.gov.pk/visa-sec.htm]

Grant of Pakistan citizenship to foreign nationals (Investors)

Any person of a country recognised by Pakistan may obtain Pakistani Citizenship by investing a minimum of US$ 0.75 million in tangible assets and $ 0.25 million (or equivalent in major foreign currency) in cash on a non-repatriable basis and by fulfilling the conditions of the Pakistan Citizenship Law. Investment on a non-repatriable basis means that the amount is brought to Pakistan through normal banking channels, converted into rupees, and will never be remitted back.