DOING BUSINESS IN Pakistan

HLB Pakistan

doing business in Pakistan

foreword

This booklet has been prepared for the use of clients, partners and staff of HLB International member firms. It is designed to give some general information to those contemplating doing business in Pakistan and is not intended to be a comprehensive document.

You should consult us, therefore, before taking further action. HLB Ijaz Tabussum & Co., and HLB International cannot be held liable for any action or business decision taken on the basis of information in this booklet.

The information contained in this booklet is believed to be correct at the time of going to print in May 2005.

about HLB International

HLB International is a worldwide organisation of professional accounting firms and business advisers, each providing clients with a comprehensive and personal service relating to auditing, taxation, accounting and general and financial management advice.

Formed in 1969, HLB can assist clients to do business in over 100 countries, with more than 1,660 partners and over 10,440 staff in 430 offices.

Up-to-date information and general assistance on international matters can be obtained from any of the partners of HLB Ijaz Tabussum & Co., listed in this booklet or from the Executive Office in London:

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islamic republic of Pakistan

Location

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

Population Demographics

The sixth most populous Country of the world, Pakistan has a current population of approximately 150 million, with a growth rate of 1.96% (2004 estimates). The majority of southern Pakistan's population lives along the Indus River; in the north, most of the people are concentrated in the cities of Faisalabad, Lahore, Rawalpindi/ Islamabad, and Peshawar. Karachi, the capital of the Sindh province and the largest city in Pakistan, is, by virtue of being a sea-port, the financial and commercial centre. With a population of over eleven million, Karachi is also the fifth most populous city of the World.

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

International Time

International time of Pakistan is GMT + 5.

Climate

Pakistan has a continental type of climate, characterized by extreme variations of temperature. During the winter season, temperature falls to -5 in the northern areas of Pakistan. Temperatures on the Baluchistan plateau are somewhat higher; maximum temperature goes to 52C mainly in the Sibbi (located in the Baluchistan Province). Along the coastal strip the climate is tempered by sea breezes. In rest of the country temperatures rise steeply in the summer and hot winds blow across the plains during day. Daily variation in temperature may be as much as 11C to 17C. Winters are cold with minimum mean temperature of about 4C in January.

Language

The national language of Pakistan is Urdu, but comparatively few people use it as their mother tongue. Punjabi is the most widely spoken language, followed by Sindhi, Pashto, Saraiki, and Baluchi respectively. English is extensively used by educated people and is the official language of Pakistan.

Currency

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

The Constitution and Legal System

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

The constitution of the Islamic Republic of Pakistan of 1973 provides for Parliamentarian form of Government. The Prime Minister (elected by the National Assembly) is the head of Government and the President (collectively elected by the National Assembly, the Senate and the Provincial Assemblies) is the head of the federation. The National Assembly (also called lower house) and Senate (also called upper house) are the legislator institutions. The National Assembly has 247 members who are elected from all provinces, the capital territory and tribal areas on the basis of population. The Senate derives equal representation from all the four provinces and has a total membership of 100. The Provisional Assemblies of the four Provinces elect 22 members each, of these 14 are general seats and four are seats reserved for Ulema (religious scholars), professionals and technocrats, and four for women. The Federally Administered Tribal Areas (FATA) is represented by eight members, whereas the Federal Capital has four seats in the Upper House of Parliament.

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

Highlights of the Economy

Pakistan used to be heavily dependent on the agriculture sector, but slowly and gradually, the industry and service sectors have increased their shares in recent years and they collectively account for around three-fourths of the GDP.

In 2003-2004 Pakistan's real GDP at factor cost grew by 6.4% and inflation remained around 6%. During that period, there was a considerable increase in the level of FDI.

Total exports amounted to US$12.4 billion 2003-2004, growing by about 13% and crossing the $12 billion mark. Imports amounted to US$15.5 billion during the same period increasing by about 19%. Major exports are textiles (garments, cotton cloth, and yarn), rice, leather, sports goods, and carpets and rugs. United States of America, United Arab Emirates, England, Germany and Hong Kong are the main export partners, while major import commodities are petroleum, petroleum products, machinery, chemicals, transportation equipment, edible oils, pulses, iron and steel, tea. The major import partners are United Arab Emirates, Saudi Arabia, Kuwait, United States of America and China.

Cotton, Wheat, Rice and Sugarcane are Pakistan's main crops while main industries of the Country are textiles, telecommunications, cement, power, commercial & investment banking, oil & gas, agro-based produce, sports goods, surgical goods, leather and leather goods, and cutlery.

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

Economic Arrangements

List of countries / organizations with which Pakistan has bilateral investment agreements

S. No.	Name of Country	Signing Date	S. No.	Name of Country	Signing Date
1.	Germany	25.11.1959	2.	Indonesia	08.03.1996
3.	Sweden	12.03.1981	4.	Tunisia	18.04.1996
5.	Kuwait	17.03.1983	6.	Syria	25.04.1996
7.	France	01.06.1983	8.	Belarus	22.01.1997
9.	South Korea	25.05.1988	10.	Mauritius	03.04.1997
11.	Netherlands	04.10.1988	12.	Italy	19.07.1997
13.	Uzbekistan	13.08.1992	14.	Oman	09.11.1997
15.	China	12.02.1989	16.	Sri Lanka	20.12.1997
17.	Singapore	08.03.1995	18.	Australia	07.02.1998
19.	Tajikistan	13.05.2004	20.	Japan	10.03.1998
21.	Spain	15.09.1994	22.	Belgium	23.04.1998
23.	Turkmenistan	26.10.1994	24.	Qatar	06.04.1999
25.	United Kingdom	30.11.1994	26.	Philippines	11.05.1999

27.	Turkey	15.03.1995	28.	Yemen	11.05.1999
29.	Portugal	17.04.1995	30.	Egypt	16.04.2000
31.	Romania	10.07.1995	32.	OPEC Fund	24.10.2000
33.	Malaysia	07.07.1995	34.	Lebanon	09.01.2001
35.	Switzerland	11.07.1995	36.	Denmark	18.7.1996
37.	Kyrgyz Republic	23.08.1995	38.	Morocco	16.04.2001
39.	Azerbaijan	09.10.1995	40.	Bosnia and Herzegovina	04.09.2001
41.	Bangladesh	24.10.1995	42.	Kazakhstan	08.12.2003
43.	U.A.E.	05.11.1995	44.	Loas	23.04.2004
45.	Iran	08.11.1995	46.	Cambodia	27.04..2004

Pakistan and the non-aligned movement (N.A.M.)

Pakistan is an active member of NAM. Since the Movement predominantly comprises developing countries, it has consistently paid considerable attention on economic issues. The Movement has maintained its long-standing position on the need for conscious steps to regulate the market measures as a means of ensuring that growth in the world economy and trade is both dynamic as well as equitable.

Pakistan and the economic co-operation organization (ECO)

ECO is an inter-governmental regional organization established in 1985 by Iran, Pakistan and Turkey for the purpose of sustainable socio-economic development of the Member States. ECO is the successor organization of Regional Cooperation for Development (RCD) which remained active from 1964 up to 1979.

In 1992, the Organization was expanded to include seven new members, namely: Islamic State of Afghanistan, Republic of Azerbaijan, Republic of Kazakhstan, Kyrgyz Republic, Republic of Tajikistan, Turkmenistan and Republic of Uzbekistan.

Pakistan and the D-8

D-8, also known as developing-8 is an arrangement for development cooperation among the following member countries: Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey. The objectives of D-8 are to improve developing countries' positions in the world economy, diversify and create new opportunities in trade relations, enhance participation in decision-making at the international level, and provide better standards of living.

Pakistan and the south asian association for regional cooperation (SAARC)

The South Asian Association for Regional Cooperation (SAARC) was established on December 8, 1985 by Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. South Asia, home to nearly a fifth of humanity, is endowed with vast natural and human resources. It has the potential of becoming a vibrant region in the world, given its enormous resources in manpower, technology, agricultural and mineral assets, its history and civilization, arts and culture. Intra-regional exchanges in the SAARC framework and trade among its Member States can realise much of this potential. Appreciating the same, the association was formed with the primary objective "to promote the welfare of the peoples of South Asia and to improve their quality of life".

investment factors

Five Reasons to Invest in Pakistan (Among Many Others!!)

a. Abundant land and natural resources
- Extensive agricultural land
- Crop production (wheat, cotton, rice, fruits and vegetables)
- Mineral reserves (coal, crude oil, natural gas, copper, iron ore, gypsum, etc.)
- Fisheries and livestock production

b. Strong human resources
- English speaking work force
- Cost-effective managers and technical workers

c. Large and growing domestic market
- 150 million consumers with growing incomes
- A growing middle-class moving to sophisticated consumption habits

d. Well-established infrastructure and legal system
- Comprehensive road, rail and sea links
- Good quality telecommunications and IT services
- Modern company law
- Long-standing corporate culture

e. Strategic location as a regional hub
- Principal gateway to the Central Asia Republics
- Strong and long-standing links with the Middle East and South Asia
- Comprehensive duty-free facilities for investors

Investment Opportunities

There are good investment opportunities in the following sectors of Pakistan economy.
- Oil & Gas
- Energy and Power
- IT Projects
- Telecommunication
- Agriculture & Agro-based Projects
- Housing and Construction
- Textile
- Infrastructure
- Health Projects
- Mining & Minerals
- Services Sector
- Tourism Projects

Tax Benefits

Tax benefits as available under the second schedule to the Income Tax Ordinance, 2001 are mentioned below:

a. Exemption from total income:

Some important sectors where exemptions are available are:

- Software exports
- Business Process Outsourcing (BPO)
- Income of Non Profit Organisation (NPO)
- Income of Computer Institutes

b. Reduction in tax rates

Tax rates have been reduced for some businesses, for example:

- Exploration of mineral deposits
- Commission of export indenting agents
- Income of Modarbas (also discussed in some detail under the section on Income Tax)

Sources of Finance

Pakistan has a diversified and modern financial system, which is completely integrated with the international financial markets. The main sources of finance can be classified as following:

Banks

The banking sector of Pakistan is very modern and organized. Most of the leading international banks have branches in the Country and local banks are also competing with them with quality services. Both foreign and national banks have invested heavily in infrastructure and information technology and thus are able to provide state of the art facilities to the customers. State Bank of Pakistan is the regulatory body for the banks, which has established its autonomous status.

Non Banking Financial Companies (NBFCs)

The NBFC sector of the Country is equally strong. The following classes of NBFCs are involved in extending credit facilities to both corporate and individual customers:

- Leasing Companies
- Investment Banks
- Modarabas
- Venture Capital Companies

Like foreign banks, many international NBFC also have branches in Pakistan. The Securities and Exchange Commission of Pakistan is the regulatory body for NBFCs. The NBFCs offer various debt facilities for medium to long-term including project financing, lease and sale, and lease-back of assets.

Public offers through stock exchanges

Financing can be arranged through a public offer of debt and equity instruments. The Securities and Exchange Commission of Pakistan approves the public offer and the equity and debt instruments can be listed on all or any of the three stock exchanges in Pakistan.

Foreign Exchange Regulations

The Foreign Exchange Regulations Act, 1947 (the Act) and Foreign Exchange Manual govern issues related to the receipt and remittance of foreign exchange in and from Pakistan. The regulatory authority in this regard is State Bank of Pakistan.

The present Act is friendly to foreign investors and provides freedom to bring, hold and take out foreign exchange, maintenance of foreign-currency accounts, purchase and sale of shares and securities by non-residents and foreign exchange borrowings for setting up of a new industry or balancing, modernization or replacement of an existing industry. The rules relating to the purchase of technology and requirements for import licences have also been substantially relaxed. Approval of the Board of Investment – Government of Pakistan may also be required in certain cases for remittance of Foreign Exchange by a foreign investor. The policy of the Board of Investment is also foreign investor friendly.

Employment Regulations

Labour Policy

The labour policy issued by the Government of Pakistan lays down the parameters for the growth of trade unionism, the protection of workers' rights, the settlement of industrial disputes, and the redress of workers' grievances. The policy also provides for the compliance with international labour standards ratified by Pakistan. At present, the labour policy as approved in year 2002 is in force. With the efforts of Government and enlightened elements within labour and employers, a forum i.e. "Workers Employers Bilateral Council of Pakistan (WEBCOP)" has been established which facilitates the resolution of issues relating to bilateral rights.

Child Labour

Awareness of the problem provided the basis for enactment of the Employment of Children Act, 1991 in Pakistan, which has been followed by a number of administrative and other initiatives to address the issue of child labour effectively.

The Constitution of the Country also protects the rights of children and states:
"No child below the age of fourteen shall be engaged in any factory or mine or in any other hazardous employment. All forms of forced labour and traffic in human beings are prohibited."

Minimum Wages

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

Category	Minimum wage(Rs. Per month)
Ministerial-A	3,100 to 3,115
Ministerial-B	2,880 to 2,960
Ministerial-C	2,750 to 2,810
Highly Skilled-A	3,100 to 3,190
Highly Skilled-B	2,950 to 3,040
Skilled-A	2,880 to 2,960
Skilled-B	2,800 to 2,855
Semi-Skilled-A	2,600 to 2,660
Semi-Skilled-B	2,550 to 2,600

Unskilled	2,500
Miscellaneous-A	3,050
Miscellaneous-B-I	2,750
Miscellaneous-B-II	2,600 to 2,615

Employees social security ordinance, 1965

An Employees Social Security scheme was introduced in Pakistan under the provisions of the Provincial Employees Social Security Ordinance, 1965. The main objective is to provide comprehensive medical cover to the secured workers and their family members including parents and to provide financial assistance in case of sickness and employment injuries. The Social Security scheme is implemented on the basis of the contributory principle. The main source of income is the Social Security Contribution, which is collected under Section 70 of the Ordinance from the employers of the notified industrial and commercial establishment at a rate of 7% of the wages paid to their workers who are drawing wages up to Rs. 5,000/- p.m. or Rs. 200/- per day. The workers once covered under this scheme remain secured even if their wages exceed Rs. 5,000/- per month.

Workers welfare fund ordinance, 1971

Through the Ordinance, the government has constituted a fund called "Workers' Welfare Fund" for the welfare of workers. The Fund consists of:
a. An initial contribution of Rupees one hundred million by the Federal Government,
b. Such moneys, as may from time to time, be paid by industrial establishments under the Ordinance.

An industrial establishment, the total income of which in any year is not less than one hundred thousand rupees shall pay to the Fund in respect of that year a sum equal to two percent of so much of its total income as is assessable under the Income Tax Ordinance, 2001.
The Fund is applied to:
· The financing of projects concerned with the establishment of housing estates or construction of houses for workers; and
· The financing of other welfare measures including education training, re-skilling and apprenticeship for the welfare of workers.

Companies profit (workers participation) act, 1968

The Companies Profits (Workers' Participation) Act, 1968 (the Act) provides for participation of workers in the profits of the companies. The Act applies to Companies engaged in as industrial undertaking that fulfils the prescribed criteria and such companies are required to:
a. Establish a workers' participation fund in accordance with the scheme as soon as the accounts for the year in which the scheme becomes applicable to it are finalized, but not later than nine months after close of the year;
b. Subject to adjustments, if any, pay every year to the Fund not later than nine months after the close of that year five percent of its profits during such year, which shall, where the accounts have been audited by an auditor appointed under section 23-B of the Industrial Relations Ordinance, 1969 (XXIII of 1969), be assessed on the basis of such audit; and
c. Furnish to the Federal government and the Board, not later than nine months after the close of every year of account, its audited accounts for that year, duly signed by its auditors.
The fund is distributed among workers of prescribed categories.

Employees old age benefits act, 1976

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

List of other important labour laws

Name of law	Applications
Factories Act, 1934	Regulates the working conditions in factories, employing 10 or more workers
Payment of Wages Act, 1936	Determines the mode of payment of salaries and wages to the industrial workers
Minimum Wages Ordinance, 1961	Specifies the minimum wage to be paid to different categories of workers
West Pakistan Industrial & Commercial Employment (S.O.) Ordinance, 1968	Provides the framework and guidelines for the service rules of industrial and commercial workforce
Punjab Fair Price Shops Ordinance, 1971	Provides criteria for the establishment of fair price shops at industrial units where 100 or more workers are employed
Employment Record of Service Act, 1951	Provides guidelines for the maintenance of service records of workers in industries
Canteen Rules, 1959	It envisages provision of a canteen facility, where 250 or more workers are employed
Industrial Relations Ordinance, 2002	It provides framework for the industrial relations between management and the workers. It regulates trade union activities
Hazardous Occupations Rules, 1978	Gives guidelines for protection of workers against certain hazardous occupations in the factories
Employment of Children Act, 1991	Regulates the employment of children
Maternity Benefit Ordinance, 1959	Provides certain facilities to those female employees, who are expectant
Shops & Commercial Establishments Ordinance, 1969	Regulates the employment and working conditions of workers in shops as well as commercial establishments (such as banks, offices etc.)
Road Transport Workers Ordinance, 1961	Provides guidelines for welfare of transport workers

Business Visa and Work Permit

Business visa for citizens of countries in “A” list

To facilitate travel to and staying in Pakistan for foreign businesspersons and investors, business visa policies have been considerably relaxed. Missions abroad can issue up to five years multiple business visa (non-reporting) within 24 hours to businessmen of countries of list-‘A' on production of any of the following documents:-

- Recommendation letter from CC&I of the respective country of the foreigner.
- Invitation letter from Business organization duly recommended by the concerned Trade Organization/ Association, in Pakistan.
- Recommendatory letter by Honorary Investment Counselors of BOI.
- Recommendatory letter from Pakistani Commercial officers posted in Pakistan High Commissions / Embassies / Consulates General abroad.

Countries of “A” list

1.	Australia	2.	Hungary	3.	Qatar
4.	Austria	5.	Indonesia	6.	Russian Federation
7.	Argentina	8.	Iceland	9.	Saudi Arabia
10.	Bahrain	11.	Iran	12.	Singapore
13.	Brazil	14.	Ireland	15.	Slovakia
16.	Belgium	17.	Italy	18.	South Africa
19.	Brunei	20.	Japan	21.	South Korea
22.	Canada	23.	Kuwait	24.	Spain
25.	Chile	26.	Luxembourg	27.	Sweden
28.	China	29.	Malaysia	30.	Switzerland
31.	Czech Republic	32.	Mexico	33.	Thailand
34.	Denmark	35.	Netherlands	36.	Turkey
37.	Finland	38.	New Zealand	39.	U.A.E.
40.	France	41.	Norway	42.	United Kingdom
43.	Germany	44.	Oman	45.	USA
46.	Greece	47.	Poland	48.	Portugal
49.	Hong Kong				

Business visa for citizens of those countries which are not in “A” list

Missions are authorized to issued entry visa for one month to Genuine Businessmen of countries besides those in ‘A' list (except those countries not recognized by Pakistan) from applicant's own country or place of legal residence by Ambassador/High Commissioner/Head of Mission only on the following criteria:-

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

Visa on arrival to the foreign investors and businessmen

Genuine businessmen from developed countries as mentioned below will be allowed Visa On Arrival (VOA) non-reporting for 30 days on production of any of the following documents:-

- Recommendation letter from CC&I of the respective country of the foreigner.
- Invitation letter from Business organization duly recommended by the concerned Trade Organization/Association, in Pakistan.
- Recommendatory letter by Honorary Investment Counsellors of BOI.
- Recommendatory letter from Pakistani Commercial officers posted in Pakistan High Commissions / Embassies / Consulates General abroad.

List of countries

1.	United Kingdom	2.	United State of America	3.	Italy
4.	Germany	5.	Australia	6.	Brazil
7.	France	8.	Switzerland	9.	Sweden
10.	China	11.	Singapore	12.	Hong Kong
13.	Japan	14.	Korea	15.	Malaysia
16.	Canada	17	Belgium	18.	Netherlands
19.	Luxembourg	20.	Denmark	21.	Ireland
22.	Greece	23.	Portugal	24.	Spain
25.	Austria	26.	Finland	27.	Turkey

Work visa procedures

A uniform facility has been extended to exempt technical and managerial personnel from work permit for the newly opened sectors of the economy, including Agriculture, Service and Social Sectors, in addition to exemption already enjoyed by such personnel for working in the manufacturing/industrial and infrastructure sectors. They are now only required to obtain work visas. Work visas will be granted to foreign technical and managerial personnel for the purpose of transferring skills and know-how. These visas will be granted subject to a constructive plan to train Pakistani personnel to take over the technical and managerial responsibilities over a reasonable period of time.

A Committee under the Chairmanship of the Secretary of BOI periodically considers and decides the cases of granting or extending work visas to foreign personnel. Companies requiring employment of foreign nationals or extension in their visa should submit the request on the prescribed application form to the Board of Investment (FTP Wing) Islamabad. Work visas will be authorised and issued by the Ministry of Interior on the basis of the decision of the Committee.

The work visa may be issued for a period up to 5 years or for the life of the applicant's passport. The concerned Pakistani Mission abroad will grant work visas to the applicant whereas extension in work visa will be endorsed by the Regional Passport Office of the city where the expatriate is working upon authorization by the Ministry of Interior.

In case of multiple entry visas, the number of entries will not be restricted.

Conversion of business visa to work visa

For the purpose of changing the category of visa of foreign national employees and investors from business visa to work visa, the condition to go out of Pakistan to any third country and get it converted from the Pakistani Mission in that country has been withdrawn. The Ministry of Interior will process such requests simply upon receiving verification from the BOI.

Multiple entry resident visas for up to 3 years will be issued to businesspersons of all countries, except those not recognized by Pakistan, who bring in an amount of US$ 200,000.

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.

setting up a business in Pakistan

License Requirements

Specialised businesses

In Pakistan, certain businesses have been declared specialized and in addition to corporate and tax requirements, a specific licence is required to commence such businesses. Such businesses are Banking Companies, Non-Bank Finance Companies, Security Service Providing Companies, Corporate Brokerage Houses, Money Exchange Companies, a Company which invests in Arms and Ammunition, Security Printing, Currency and Mint., High Explosives and Radio Active Substances. Certain conditions e.g. as to minimum capital, qualification of directors, corporate structure and area of operations etc. are required to be complied with to obtain these licences. However, the conditions for grant of licence vary from business to business.

General business

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

Types of Business Organisations

Complying with the requirements of licence, a business can be established in any of the following forms:

Sole Proprietorship

An individual may set up the business as sole proprietorship without any registration except with tax authorities.

Partnership Firm

A partnership firm can be established by executing a partnership deed on a stamp paper of Rs. 500/- and getting the same Notarized by the authorised Notary Public Magistrate. The Partnership Act, 1932 is the legal framework for partnership firms and a firm may or may not be registered with the Registrar of Firms.

Companies

The Companies Ordinance, 1984 (the Ordinance) and The Companies (General Provisions and Forms) Rules, 1985 provide the legal framework for operations of companies in Pakistan and the

Securities and Exchange Commission of Pakistan (the Commission) is the regulatory authority in this regard. In Pakistan, a company may be formed with or without limited liability and the Ordinance provides for the following categories of the companies:

a. a company limited by shares; or

b. a company limited by guarantee; or

c. an unlimited company

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

a. private companies

b. public companies

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

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

a. restricts the right to transfer its shares, if any;

b. limits the number of its members to fifty;

c. prohibits any invitation to the public to subscribe for the shares, if any, or debentures of the company.

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

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

a. For registration of a company whose nominal share capital does not exceed Rs. 100,000 the fee shall be Rs. 2,500.

b. For registration of a company whose nominal share capital exceeds Rs. 100,000, a fee of Rs. 2,500 is payable along with an additional fee to determine according to the amount of nominal share capital as follows.

i. For every 100,000 rupees of nominal share capital or part of 100,000 rupees, after the first 100,000 rupees, up to 5,000,000 rupees, a fee of Rs. 500.

ii. For every 100,000 rupees of nominal share capital or part of 100,000 rupees, after the first 5,000,000 rupees, a fee of Rs. 250.

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

Modaraba

Pakistan's commitment to promote an "Interest (Riba) free" economic system was carried forward with the promulgation of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. Its primary aim was to accelerate capital formation and economic development in accordance with the tenets of Islam. It is a distinct form of business and its general concept is that investment comes from the one partner while the management and work is an exclusive responsibility of the other, and the profits generated are shared in a predetermined ratio. The corporate formation is arranged in such a way that a Management Company is formed which is responsible for the management of Modaraba and business is executed by the Modaraba itself. For all legal and practical purposes both the Management Company and Modaraba are separate entities. A management company may operate more than one Modarabas. The Modaraba pays a fee to the Management Company. Like Shares of a company, Modaraba certificates are issued to the equity holders of the Modaraba. The certificates can also be offered to the general public.

Modaraba has established itself as a well understood Shariah compliant form of business and has been practiced for the last 20 years. It also enjoys certain tax benefits which are discussed in the relevant section.

Listing of Companies and Securities

There are three stock exchanges in the country, namely:
- Karachi stock exchange,
- Lahore stock exchange, and
- Islamabad stock exchange.

Karachi Stock Exchange (the Exchange) is the biggest and most liquid exchange and has been declared as the "Best Performing Stock Market of The World For the year 2002".
All exchanges have their own regulations which are largely similar. The Securities and Exchange Commission of Pakistan (Pakistan) grants the approval for the public offer and after such approval a company may obtain listing for its equity and/or debt securities according to the regulations of the Exchange.

The stock exchange regulations provide for certain reporting and other requirements. Some important regulations are in respect of notice of board and shareholders' meetings, approval for date of annual general meeting of the company, reporting of the results and announcements of the dividends, payment of dividend at least once in five years and code of corporate governance. The code is a comprehensive set of rules for ensuring transparency and good governance in the management of the company.

For an application to the Commission seeking approval to issue, circulate and publish the prospectus for public offer, a non-refundable fee is payable in the following manner according to the size of total issue including all types of securities:

Up to Rs. 250 million	Rs. 25,000/-
More than Rs. 250 million and upto Rs. 1,000 million	Rs. 50,000/-
More than Rs. 1,000 million	Rs. 100,000/-

As per regulations of the Karachi stock exchange, the following fees are presently applicable:

· Initial listing fee for the share capital is equivalent to one tenth of one percent of the paid-up capital subject to a maximum of one million and five hundred thousand rupees.

· Listing fee for debt instruments and open-end mutual funds is equal to one twentieth of one percent of the amount of debt instrument/ seed capital of mutual fund subject to a maximum of five hundred thousand rupees.

· Whenever a listed company increases the paid-up capital of any class or classes of its shares, or securities it shall pay a fee equivalent to one tenth of one percent of such increase.

Annual listing fee is payable as following:

Companies having paid-up capital	Fee per Annum (Rupees)
Upto Rs. 50.00 million	15,000
Above Rs. 50.00 million and upto Rs. 200.00 million	30,000
Above Rs. 200.00 million	60,000
Size of Instrument	
Upto Rs. 50.00 million	15,000
Above Rs. 50.00 million and upto Rs. 200.00 million	30,000
Above Rs. 200.00 million	35,000

Foreign Investor in Pakistan

A foreign investor may establish an independent business with any of above mentioned corporate structures. He can establish a sole proprietorship, can enter into partnership with any local person or foreigner and even can establish a company with or without participation of local shareholder(s) and director(s). If a foreign enterprise wishes to establish a business in Pakistan as a part of its international operations, in addition to the said corporate structures it also has following choices:

a. It can obtain registration with Board of Investment – Government of Pakistan (the Board), for opening of a branch office, marketing office or liaison office. Regulations of the Board impose certain restriction on the operations of the enterprise.

b. It can appoint an agent in Pakistan. Relevant provisions of the Contract Act, 1872 shall apply in such agency arrangements.

c. It can enter into joint venture with other business entities. Relevant provisions of Contract Act, 1872 and Partnership Act 1932 are applicable to these ventures.

Accounting and Auditing

The financial year for all business enterprises (except as discussed in the section on Income Tax) is from 1st July to 30th June of every year. All listed companies are required to issue their financial statements for the year ending on 30th June at the latest by the last day of the immediately following October, while other Companies may submit their financial statements to Securities and Exchange Commission of Pakistan (SECP), at the latest by the last day of immediately following December.

All companies are required to get their financial statements audited by a Chartered Accountant who is a member of the Institute of Chartered Accountants of Pakistan (ICAP). However, a company that has share capital below three million rupees may get their financial statements audited by a Cost and Management Accountant who is a member of the Institute of Cost and Management Accountants of Pakistan (ICMAP).

Financial statements of listed companies are presented according to the requirements of the fourth schedule to the Companies Ordinance, 1984 while financial statements of all other companies are presented according to the fifth schedule to the Companies Ordinance, 1984. ICAP considers and adopts the International Accounting Standards (IASs) and SECP notifies their application in preparation of financial statements of companies. At present, all IASs issued by International Accounting Standards Board except IAS 15 and IAS 29 have been adopted and notified.

taxation

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

Direct Taxes

Direct taxation consists of Income Tax and Capital Value Tax.

Income Tax

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

Classification of assessees
The nomenclature of corporate and non corporate structures for income tax purposes is as follows:

- Company
- Registered Firm
- Un-registered Firm
- Association of Persons (AOP)
- Individuals

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

- A company as defined in the Companies Ordinance, 1984
- A body corporate formed by or under any law in force in Pakistan
- A body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies
- A trust, a co-operative society or a finance society or any other society established or constituted by or under any law for the time being in force.
- A foreign association, whether incorporated or not, which the Central Board of Revenue has, by general or special order, declared to be a company for the purposes of this Ordinance
- A foreign association, whether incorporated or not, which the Central Board of Revenue has, by general or special order, declared to be a company for the purposes of this Ordinance

Sources of income
The Income Tax Ordinance, 2001 classifies income into the following categories (called heads of income) and prescribes the allowable deductions against each head:

- Salary
- Income from Property
- Income from Business

- Capital Gains
- Income from Other Sources

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

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

- Dividend received from a listed company
- Prize on a prize bond or winnings from raffle, lottery, quiz or crossword puzzle, or prize offered by companies for promotion of sale.
- Travelling agent's commission
- Contracts other than service contracts
- Royalty and fee for technical services of non-residents

Scope of total income for tax purposes

The Residential status of an assessee is also an important concept as it determines the scope of total income for tax purposes. In the case of a resident assessee the total taxable income means income from all sources within and outside Pakistan subject to the provisions of double taxation treaties, while in the case of a non-resident individual it is restricted to Pakistan source income only. An individual is a "resident individual" if he is present in Pakistan for 182 days or more in a tax year or if he is an employee or official of the Federal or Provincial Government posted abroad.

A Company is considered to be resident when either it is incorporated or formed by or under any law enforceable in Pakistan or, the control or management of which is situated wholly in Pakistan at any time during the tax year.

A registered firm, un-registered firm and association of persons is considered resident when its management and control is situated (either wholly or partly) in Pakistan.

Tax year and filling of return

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

Central Board of Revenue has prescribed different period of twelve months to be the "tax year" for various businesses. These different periods are called "Special Tax Year". Accordingly the last date for filling the return of income is also different as prescribed for the normal tax year. Presently prescribed, special tax years and last date of filing the return are as following:

Business	Tax Period	Filling of
	Return	
	(Year ending on)	(Latest by)
Companies		
Manufacturing Sugar	30th September	31st March
All persons exporting Rice	31st December	30th June
All persons carrying on the business of rice husking	31st August	28th or 29th February
All persons carrying on the business of oil milling	31st August	28th or 29th February
All persons carrying on the Business of manufacturing and dealings in shawls	31st March	30th September
All Insurance Companies	31st December	30th June

A person may apply, in writing, to the Commissioner of Income Tax to allow him to use a twelve months' period, other than the normal tax year, as a special tax year and the Commissioner may by an order, allow him to use such special tax year.

In case of a class of persons having a special tax year, the Central Board of Revenue may permit it, by a notification in the Official Gazette, to use the normal tax year as its tax year.

Tax rates
The rates of tax applicable to various assesses are provided as Annexure 1.

Special rules for taxation of certain businesses
The Income Tax Ordinance, 2001 provides for separate provisions for taxation of the following businesses:
- The fourth schedule to the Ordinance provides the rules for the taxation of profits and gains of Insurance Business.
- The fifth schedule to the Ordinance provides the rules for the taxation of profits and gains from the exploration and production of petroleum profits and gains from the exploration and extraction of mineral deposits (other than petroleum).

Withholding tax
Section 148 to Section 169 of The Income Tax Ordinance, 2001 provides for deduction of tax on certain payments. The ordinance provides for a complete procedure for the withholding tax system. Nature of such payments and pertinent rate of tax deduction is provided as Annexure 2.

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

A. Exemption from total income
Part I of the Second Schedule provides exemption from total income.
B. Reduction in tax rates
Part II of the Second Schedule provides for reduction in tax Rates.
C. Reduction in tax liability
Part III of the Second Schedule provides for reduction in net tax Liability.
D. Exemption from specific provisions
Part IV of the Second Schedule provides for exemption from specific provisions of the Ordinance.

Exemptions for Modarabas

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

- Income (except income from trading activity) of a Modaraba is exempt from tax provided that not less than ninety percent of the profits in the year as reduced by the amount transferred to a mandatory reserve are distributed among the Modaraba certificate holders.
- It is taxed at a reduced rate of 25% as compared to 35 % applicable to companies.
- Further, minimum tax is also not leviable on the Modarabas.

Depreciation and Amortization

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

- Initial depreciation Allowance @ 50%
- Amortization of pre-commencement expenditure @ 20%

Treaties for avoidance of double taxation

Pakistan has entered into treaties for avoidance of Double Taxation with different countries. These agreements are executed to avoid the fiscal loss of both countries. A brief about these treaties is provided as Annexure 3.

Capital Value Tax

The Capital Value Tax was introduced through the Finance Act, 1989. Initially this tax was also applicable to urban immovable properties and locally assembled/imported vehicles, but currently it is applicable to the following:

Activity	Rate of Tax
- Purchase of shares through stock exchange	0.01%
- Purchase of Air Tickets (Diplomats are Exempt)	3.00%
- Purchase of New Vehicles	2.00%to 6.00%

The tax is paid along with the payment and is final discharge of liability.

Indirect Taxes

The detail of indirect tax statutes is provided below:

Sales Tax

The VAT-mode Sale Tax has become a salient feature of the country's tax policy. Sales Act 1990 forms the legal frame work for the operation and collection of sales tax. The "Collectorate of Sales Tax" a division of the Central Board of Revenue (CBR) is the regulatory authority in this regard. Sales tax is payable on monthly basis at the rate of 15% of the value of supplies net of the amount of input tax i.e. paid on purchases. The following persons are required to obtain the Sales tax registration:

1. A manufacturer whose annual turnover from taxable supplies made in any period during last twelve months ending any tax period exceeds five million rupees.
2. A service provider whose annual turnover from taxable services made in any period during last twelve months ending any tax period exceeds five million rupees.
3. A retailer whose value of supplies made in any period during last twelve months ending any tax period exceeds five million rupees.
4. An importer.
5. A wholesaler including dealer and distributor.

The Government promotes the sales tax registration and it is a must for doing business with most of Government departments, Corporations and large Companies. To solicit such business a manufacturer, service provider or retailer may obtain voluntary registration at the time of commencing the business even if his turnover does not fall within the limits prescribed for compulsory registration.

Custom Duty

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

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

The rates of duty vary from item to item and are provided in section 18 of the Act. In view of the post WTO scenario, the Government is revisiting its tax policy and reduction and elimination of duty is expected.

Excise Duty

The Central Excise and Salt Act, 1944 and Central Excise Rules, 1944 provide the legal framework to address the issues related to central excise duty. The Central Excise Duty is a federal charge and it is levied and collected on excisable goods and services of the following categories:

1. Goods which are produced or manufactured in Pakistan.
2. Goods which are imported into Pakistan.
3. Goods which are produced or manufactured in the non-tariff areas and are brought to the tariff areas.
4. Excisable services provided or rendered in Pakistan.

The rates and basis of levying the duty vary from item to item and are provided in the first schedule of the Act. However, the Government now intends to gradually withdraw central excise duty from a number of items and restricts it only to five or six non-essential items.

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