DOING BUSINESS IN PAKISTAN

COMPENDIOUS STUDY ON STATUTORY STIPULATIONS

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5th Edition

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WORDS FROM THE CHAIRMAN

Assalam-o-alaikum everyone!

I am glad to inform you that we have been able to complete the 5th Edition of our annual publication called "Doing Business in Pakistan – Compendious Study on Statutory Stipulations". This publication provides a comprehensive overview of the tax laws, corporate regulations, and other legal aspects that hold intrinsic importance from an investment standpoint in Pakistan. Our team has dedicated its utmost effort to offer a concise overview of the essential legal framework relevant to investments in Pakistan.

We hope this publication will assist in a better understanding of the legal framework that influences investment in Pakistan.

We are grateful to Mr. Rizwan Manai - FCA for his valuable contribution to this document and a detailed review of the same.

If you have any queries in relation to this document, please do not hesitate in contacting the undersigned or our team members. The contact details of our team are as follows;

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EXECUTIVE SUMMARY

A crucial aspect and effect of globalization has been cross-border flows of foreign direct investment (FDI) and the footprints created by multi-national companies. Every developing nation is striving to implement investment liberalization policies to enhance growth by attracting FDI. Pakistan has been working towards creating a better environment for businesses that also promotes ease of doing business. Moreover, it has also been open to foreign investment through 100% ownership feature and with creation of Economic Zones and Linkages of trade and industrial and monetary policies for greater convergence. Moreover, Pakistan has taken two steps forward in order to attract investment and bolster investor confidence, with the enactment of the Inter-Governmental Commercial Transactions Act, 2022 and the establishment of the Special Investment Facilitation Council ("SIFC"). The SIFC in particular has been established to ensure a one window solution for foreign investors, as all the provincial chief ministers are its members along with the Prime Minister of Pakistan. Inter-governmental Commercial Transactions Act, 2022 enables the Government of Pakistan to enter into Government-to-Government Agreements with other countries. One of the reasons for the enactment of this Act might have been to obtain a quicker alternative to privatization under the Privatization Commission Ordinance, 2000 and the PEPRA Rules.

Taxes in Pakistan are categorized into two types: Direct and Indirect Taxes. Direct Tax includes Income Tax which is a federal subject as per the Constitution of Pakistan 1973 (the Constitution). Hence, it is being administered by the Federal Board of Revenue under the Income Tax Ordinance, 2001 and its related rules. Indirect taxes include Sales Tax on Goods and Services, Excise Duty and Customs Duty etc. All the indirect taxes, except for sales tax levied on services, are subject matter of Federal Legislative List under the Constitution and hence, being administered by the FBR. Sales tax on goods is governed under Sales Tax Act, 1990 and its related rules, whereas excise duty on goods and services is covered under the Federal Excise Act, 2005 and its related rules. Moreover, Custom duty and regulatory duty are levied under the Customs Act, 1969 and Pakistan Customs Tariff.

Since sales tax on services is a provincial subject, all the four provincial tax authorities have enacted their respective sales tax on services Acts and the rules thereon. It may be noted that sales tax on services within the Islamabad Capital territory is a domain of the Federal Government for which the Federal Government has Islamabad Capital Territory (Tax on Service) Ordinance, 2001.

Foreign Direct Investment (FDI) in Pakistan is governed under Foreign Exchange Regulations Act, 1947 together read with Foreign Exchange Manual, 2002 of State Bank of Pakistan (SBP), Protections of Economic Reforms Act, 1992 and Investment Treaties. Policies issued by Board of Investment (BOI) from time to time including privatization, liberalization, and deregulation, which is in line with the existing transformation of Pakistan as a regional trade hub and increased regional connectivity through China-Pakistan Economic Corridor (CPEC), political stability and revival of economic growth to catch up with the Eastern Asian economies. Some of the relevant portions of the BOI policy have also been described in this document. Naturally, if foreign and local investment is made in the corporate sector, the Companies Act 2017 is of paramount importance. Similarly, regulations made by the SECP pursuant to different sections under the Companies Act 2017 are also essential.

Although covering many relevant areas, this document should not be considered as exhaustive since it has not been designed to provide complex and detailed information required for a particular decision-making in relation to an investment or otherwise.

➢ PROLOGUE

Pakistan has a rapidly growing youth population, with 62% of its population being younger than the age of 30 as per the Pakistan Bureau of Statistics (PBS). A young population can always be the catalyst to success for a country and be the driving engine for economic growth. Moreover, the world has just recently, and finally, started tapping the potential in the start-up sector(s) of Pakistan. A statistic testament to this is that there has been foreign investment worth USD 427 million during Jul–June period of 2022-23. Combine all these factors with the potential opportunities the China Pakistan Economic Corridor brings to Pakistan, it is one of the top countries to invest in at this point in time, with a lot of potential business opportunities in the offing. A crucial thing CPEC has brought with it is the significant improved and efficient transportation system across the country.

It may be noted that legal protection to foreign investment in Pakistan is fully protected by following legislation:

- Foreign Private Investment (Promotion and Protection) Act, 1976.
- Protection of Economic Reforms Act, 1992; and
- Bilateral investment treaties with various countries

➢ DEMOGRAPHICS OF PAKISTAN

As per the results of the 7th Population and Housing Census 2023 – The Digital Census announced by the PBS, the population of Pakistan has reached, 241.49 million with the growth of 2.55%, excluding Azad Jammu and Kashmir and Gilgit-Baltistan making it world's sixth most populous country.
Moreover, as per the World Bank Development Indicators, the average population growth rate from 2003-2022 stood at 1.84%.

Pakistan has witnessed rapid urbanization and emergence of megacities with currently 36.1% of population residing in urban areas as per Labor force survey 2021, leading to second largest urbanized nation in South Asia with 50% of Pakistanis now residing in towns of 5,000 people or more. Pakistan has the largest young population as well as largest refugees' population in the world. The following table depicts the age wise and gender wise distribution of population according to latest estimates of World Bank.

Age Group	Male	Female	Total	Percent
0-14	44,122,535	42,108,106	86,230,641	36.57%
15-64	70,165,001	69,350,777	139,515,778	59.16%
65+	4,673,344	5,405,099	10,078,443	4.27%
				Source: World Bank Indicator ("WDI")

➢ INVESTMENT POLICIES

PAKISTAN INVESTMENT POLICY 2023

In order to protect and stimulate investment (both local and foreign) in Pakistan, the Investment Policy 2023 has been designed to provide a comprehensive framework for creating a conducive business environment for the attraction of investment in Pakistan's economy.

As per the Board of Investment ("BOI"), the BOI is majorly focused on "Pakistan Vision 2025," and aims to transform Pakistan into one of the top 10 economies worldwide by 2047. It envisions the economy of Pakistan becoming an upper middle-income country with a balanced infrastructure development. The Pakistan Vision 2025 and the Strategic Trade Policy Framework ("STPF") 2020-2025 both emphasize foreign direct investment ("FDI") as a key element for supporting Pakistan's economy, specifically amidst various challenges such as food security, health, energy, and geopolitical crises. The Pakistan Investment Policy 2023 ("PIP 2023") considers the current global economic challenges and the aftermath of the Covid-19 pandemic along with regional and global, political and economic changes. Despite these shifts, the policy's major goal remains unchanged: attracting more investments, specifically in sectors that could bring value addition activities, more job opportunities, and export earnings to Pakistan. In order to achieve these objectives, the PIP 2023 adopts a radical, bold, and implementable approach.

Why investors would want to choose Pakistan

- Pakistan is determined to maintain attractive investment policies and measures.
- The country possesses a strategic location, abundant natural resources, and a large and skilled workforce.
- Pakistan maintains a liberal investment regime.
- The goals outlined in Pakistan Vision 2025 and STPF 2020-2025 include attracting high-quality, export-oriented, import-substituting, and efficiency-seeking FDI to advance the country's economy.
- The focus is on increased integration with global value chains ("GVC") to elevate Pakistan to an upper-middle-income country.
- PIP 2023 aims to introduce new approaches to enhance Pakistan's economic complexity and boost its participation in GVCs.

Continuation of the Investment Polices 1997 and 2013

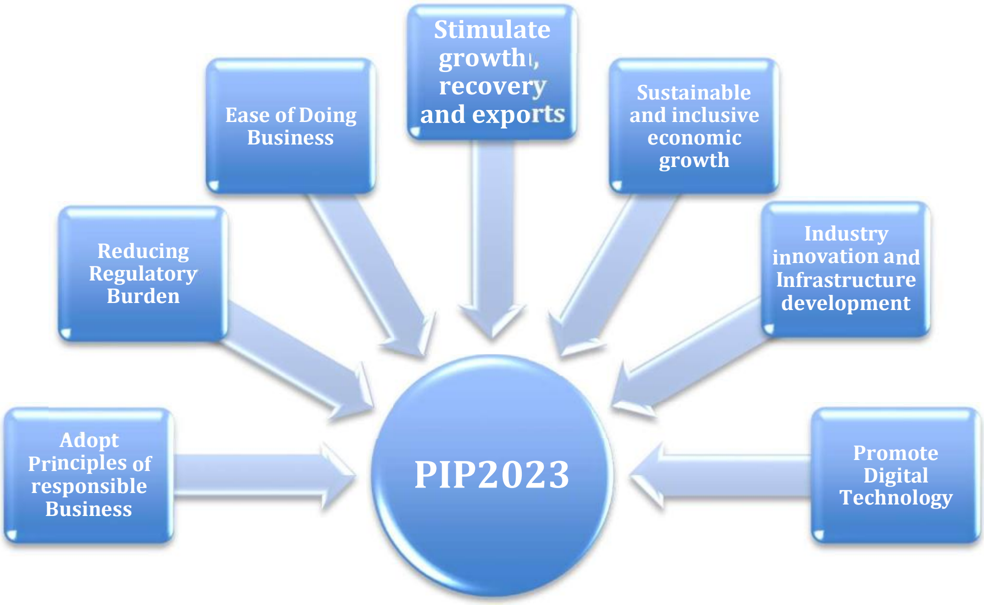
PIP 2023 represents a progressive development, building upon the foundation laid by the Investment Policies of 1997 and 2013 in Pakistan. The 1997 Investment Policy played a crucial role in liberalizing investment activities beyond the manufacturing sector, allowing foreign and local investors to venture into services, social, infrastructure, and agriculture sectors. Subsequently, the 2013 Investment Policy further improved the investment climate by aligning with the National Policy Document, Vision 2030, and enhancing ease of doing business through guiding principles focused on reducing costs, streamlining processes, creating industrial clusters and Special Economic Zones, and harmonizing trade, industrial, and monetary policies. The PIP 2023, as a natural progression from these earlier policies, is likely to build on the successes while addressing emerging challenges and opportunities in the global economic landscape, thereby fostering a more conducive environment for both domestic and foreign investment, ultimately propelling Pakistan towards sustainable economic growth and development.

Key Objectives of the Investment Policy 2023

- PIP 2023 aims to address economic priorities amidst changing global and regional challenges, fostering economic growth and reducing imbalances.
- The policy is aligned with the Sustainable Development Goals ("SDGs") to achieve sustainable and inclusive economic growth, industry innovation, and infrastructure development, promoting gender equality and responsible business practices.

- PIP 2023 seeks to attract high-quality, export-oriented, and import-substituting FDI to improve the balance of payments, create high-quality jobs, reduce income gaps, and foster balanced development across regions and provinces in Pakistan. It aims to increase net FDI inflows and raise the investment to GDP ratio from 15% to 20%.
- The policy envisions an innovative and aggressive approach to attract sustainable FDI, transforming the business environment by providing efficient, transparent, and integrated services and investor protection.
- PIP 2023 aims to boost Pakistan's economic complexity by diversifying products and services for export through increased FDI, leading to higher export earnings from value-added activities. It seeks to reverse the trend of decreasing economic complexity and improve Pakistan's global position in the Economic Complexity Index.

Foundational Principles of the Pakistan Investment Policy 2023



Strategic Focus of the Pakistan Investment Policy 2023

Based on the *I* strategies stated hereinabove, the PIP 2023 envisages a targeted approach to FDI that aligns with domestic investors, fostering the establishment of local value chains and strengthening backward and forward linkages in sectors where Pakistan holds a comparative advantage. To promote such endeavors, a comprehensive system of both fiscal and non-fiscal incentives will be provided, while monitoring progress through performance-based indicators.

Increase economic complexity	• Increase investments in export oriented activities. • Development of sophisticated products and services. • High local R&D and innovation intensity.
Creation of high-value jobs	• High-skilled. • High-income employment for locals
Extend Domestic linkages	• Increased use of domestic inputs • Increased breadth and depth of domestic supply chain • University/Industry Council for closer collaborations
Develop new and existing clusters	• Development of highproductivity sectors • New products and services for import substitution
Develop new and existing clusters	• Improve development in underserved areas and communities

Fostering Investments: Facilitation and Retention Strategies

Pakistan embraces foreign investment and maintains an open investment regime, giving it a competitive edge over regional counterparts. Most sectors allow foreign investors entry without pre-screening or approval. Instead, foreign investment admission is through enterprise registration, requiring compliance with the Companies Act 2017. Additionally, foreign investors operating through foreign companies can establish branch or liaison offices in Pakistan, further facilitating their presence and operations in the country.

- Pakistan offers robust support and facilitation to investors, including a One Window facility for smooth operations.
- Various online systems like Branch / Liaison Management Information System (“BLMIS”) and Special Economic Zones Management Information System, streamline applications and payments, enhancing transparency and efficiency.
- Business Matchmaking module and an online portal with a helpdesk assists in grievance redressal and investor facilitation.
- Faster company registration processes have been established through digitization and facilitation desks.
- The Pakistan Regulatory Modernization Initiative (“PRMI”) aims to enhance regulatory quality and coherence, establishing a National Regulatory Delivery Office for ongoing reform.
- Targeted "investor aftercare initiatives" will support key investment projects and local suppliers to develop and preserve supply chains.
- Ensuring swift access to utility services and supporting small and medium enterprises (“SMEs”) to strengthen linkages with private domestic investment.
- A comprehensive and investor-friendly visa policy provides easy access to counsellor services, promoting investment attraction.
- The Federal Government can notify qualified investments under the Foreign Investment (Promotion and Protection) Act, 2022, enabling appropriate incentives and protections for qualified investments within Pakistan.

Empowering Investors: Rights, Protections, and Lucrative Incentives

Protection of Investor Rights

- Commitment to internationally accepted standards for investment protection.
- Safeguarding against negative impacts of future policy shifts on existing investments.
- Granting most favored nation and national treatment to foreign investors.
- Non-discriminatory expropriation for public purposes with fair compensation.
- Foreign investors allowed to raise local or foreign loans, repatriate funds, and transfer profits in freely usable currency.
- Foreign investors in any sector may repatriate their capital, profits, dividends, or any other funds in the currency of their investment or into any other freely usable currency, subject to Foreign Exchange Regulations of the State Bank of Pakistan and provisions of the Companies Act 2017.
- Foreign companies entitled to acquire land on leasehold rights, subject to regulations.

Dispute Resolution and Investor Grievance Mechanism

- Signatory to various international dispute settlement agreements.
- Establishment of Investor Grievance Redressal System through the Investment Ombudsman.
- Institutional infrastructure for resolving grievances in accordance with international investment agreements and regulations.

Intellectual Property Rights Enhancements

- Specialized Intellectual Property Tribunals for better adjudication of cases.
- Upgraded Intellectual Property Rights policies with enhanced penalties for violations.

Investment Incentives

- The Government of Pakistan offers fiscal and non-fiscal incentives to promote investment in priority sectors and activities within the country. These incentives are regularly reviewed and updated to align with public policy goals and ensure their effectiveness.
- Incentives are designed based on smart principles, aiming for transparency and performance-based allocation. Examples include investment tax allowances, tax credits, accelerated depreciation, reduced tax rates, infrastructure tax incentives, and exemptions from indirect taxes and duties.
- Investors can benefit from exemptions on income and corporate taxes, import duties on machinery, raw materials, and research and development. Non-tax incentives are also provided to support investments.
- The Government conducts sector scanning and profiling to identify key sectors, drawing insights from the experiences of other successful regions, like ASEAN Member States, to formulate and implement incentive policies effectively.
- Investment incentives primarily target high technology sectors, efficiency-seeking, export-oriented, and import-substituting investments. Special focus is placed on reinvestments and activities of national and strategic importance, such as medical devices and pharmaceuticals.
- Location-based incentives are provided to promote investment in under-developed regions and encourage activities in industrial estates, promoted industrial zones, and Special Economic Zones (“SEZs”).
- Enterprises operating within SEZs receive benefits such as tax holidays and duty exemptions for the import of plant, machinery, and equipment, further enhancing the investment climate.
- Federal Board of Investment (“BOI”) and sub-national Investment Promotion Agencies (“IPAs”) play vital roles in managing incentives, advising the government on incentive policies, ensuring investor compliance, and overseeing the implementation of incentive programs.

➢ TAX OVERVIEW

There are two types of duties and taxes applicable in Pakistan, which are hereunder:

	FEDERAL TAX	PROVINCIAL TAX
Direct Tax A tax on the profits of individuals, corporations and other entities	Income tax This tax contains 5 heads of income. These are: ● Salary ● Income from property ● Capital gains ● Income from business ● Income from other sources	Agriculture Tax, Professional Tax etc.
Indirect tax Tax on the final consumer when they pay for goods and services	• Sales tax on goods • FED on Goods and Services • Customs Duty	Sales tax on Services

The major developments in taxation since our previous edition of this document have been the following:

- Levy of Super Tax (Section 4C of the ITO);
- Capital Value Tax on specified motor vehicles and foreign assets of resident individual (Section 8 of the Finance Act 2022);
- Deemed income on specified idle immovable properties with Fair market Value exceeding Rs.25 million (Section 7E of the ITO);
- Taxes on prior years' windfall income (Section 99D of the ITO); and
- Reforms in Alternate Dispute Resolution Mechanisms
- Taxation of Bonus shares

We have incorporated above amendments in this document, wherever required, so the same is up-to-date.

In addition to above regular monthly newsletters are also issued namely Tax Pak and Pakonomics. Other publications are also issued on major tax and economic developments in the country which can be accessed through our website www.tolaassociates.com, or Android and iOS mobile applications. Mobile applications may be downloaded from the links below:

1. https://t.ly/-80Lx (**Android**)

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INCOME TAX

1. INCOME TAX

➢ INTRODUCTION:

A brief overview of the income tax legislation(s) predating Pakistan's independence should be looked at in order to trace the origins of the income tax being levied in Pakistan. The first income tax legislation in the then British India was introduced by the Government in India in 1860.[1] It was titled 'The Income Tax Act 1860'. The 1860 Act imposed a scheduler income tax system, whereby, four heads of income were taxed separately under different schedules.[2] The 1860 Act also included a direct tax on agricultural income arising from land. However, the 1860 Act expired in 1863, and a license tax was imposed in India.[3] Furthermore, an income tax was re-imposed in 1869 for 4 years.[4] After the income tax expired again, the government in 1878 reintroduced many license taxes. However, due to recurring financial difficulties, the then Government in India decided to levy the income tax again in 1886.[5] This was done by virtue of the Income tax Act 1886. Again, the income taxes introduced were applied through a scheduler income tax system.

The Income Tax Act of 1886 was a general income tax that had been imposed on traders by some provinces in 1878. Its basic scheme, by and large, survives till today. The 1886 Act continued for 32 years, until it was repealed by the Income Tax Act of 1918.

The 1918 Act implemented amendments to the 1886 Act.[6] It introduced a total income tax and replaced the scheduler income tax system and also made filing income tax compulsory.[7] Thereafter, through the Income Tax Act 1922, it was settled that the tax rates will be allowed to be fixed through annual Finance Acts.[8] The 1922 Act was adopted by Pakistan upon its independence. Furthermore, the 1922 Act remained in force in Pakistan till 30th June 1979, when General Mohammad Zia-ul-Haq, the then president of Pakistan during an era of Martial Law, decided to enforce a new law, the Income Tax Ordinance, 1979 which came into effect from 1st July 1979.

The 1979 Income Tax Ordinance was amended a number of times to remove the loopholes therein.

After 23 years, the then Government headed by the General Pervez Musharraf decided to repeal the 1979 Ordinance. Hence, a new Income tax Ordinance was promulgated on 13th September 2001, reportedly in a hurried manner due to pressure from a stand-by agreement with an international lending institution.[9] The same was made effective from 1st July 2002 vide SRO 381(I)/2002 dated 15th June 2002.

1.1. RESIDENTIAL STATUS

As mentioned earlier, Income Tax in Pakistan is levied through the Income Tax Ordinance, 2001 (ITO 2001), the implementation of which is administered by the Federal Government. It applies to all individuals, companies, firms, association of persons and other artificial judicial persons. A Normal Tax year runs from 1st July to 30th June in Pakistan. Pakistan opts to tax entities based on whether they are residents for tax purposes, in addition

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[1] B.A. Azhar, 'Taxation of Agriculture Income: A Holistic View', The Pakistan Development Review 30(4)(II) (1991) 1065

[2] Facundo Alvaredo, Augustin Bergeron and Guilhem Cassan, 'Income concentration in British India, 1885 – 1946' 1 <http://piketty.pse.ens.fr/files/AlvaredoBergeronCassan2017Appendix.pdf> accessed on 13th September 2021.

[3] ibid

[4] ibid

[5] Ibid 2

[6] Ibid 3

[7] ibid

[8] ibid

[9] Huzaima Bukhari and Ikram ul Haq, Tax Reforms in Pakistan Historic & Critical view (PIDE 2020) foreword viii <https://www.pide.org.pk/pdf/Books/Tax-Reforms-in-Pakistan-Historic-and-Critical-View.pdf> accessed on 13th September 2021.

to income sourced within Pakistan. Non-residents are taxed only on the income that is sourced in Pakistan, the rules of which are set out in the ITO 2001. This is known as a residence-based tax system.

As per the ITO 2001, the residential status can be determined as under:

Category	Condition for qualifying as a 'Resident'

Individuals	• Present in Pakistan for 183 days or more in the tax year;
	• Is an employee of the Government whether physically in Pakistan or not; or
	• [10]Citizen of Pakistan who is not-
	  ○ present in any other country for more than 182 days during the tax year; or
	  ○ a resident taxpayer of any other country.

[11]Companies	• Incorporated or formed by or under any law in force in Pakistan; • The control and management of the company affairs is situated wholly in Pakistan at any time in the year; or • It is a Provincial or Local Government in Pakistan
Association of Persons	If the control and management of the affairs of the AOP is situated wholly or partly in Pakistan at any time in the year.

1.2. TAXABLE INCOME

Residential status	Income taxable in Pakistan
Resident	Domestic income + Global income (subject to tax treaties)
Non-resident	Pakistan source income (subject to tax treaties)

- A resident person is liable to be taxed on his world income.
- A Non-Resident person is liable to be taxed for his Pakistan source income only.

1.3. HEADS OF INCOME

Income is classified and accordingly taxable under the following heads:

Head of Income	Description of Income
Income from Salary	Income arising on account of employment is taxable in the hands of the employee

[10] Inserted vide Finance Act, 2022

[11] Following entities fall under the definition of a Company

- A company as defined in the Companies Act, 2017 including a small company
- A body corporate formed by or under any law in force in Pakistan
- A modaraba
- A co-operative society, a finance society or any other society
- A non-profit organization
- A trust, an entity or a body of persons established or constituted by or under any law for the time being in force
- A foreign association, whether incorporated or not, which the Board has, by general or special order, declared to be a company for the purpose of this Ordinance.

Income from Property	The rented-out property is charged to tax in the hands of the owner at the higher of the rent earned or the fair market rent of the period in which the property is let out.
Income from Business	Income earned by a taxpayer on exercise of a business or profession less allowable deductions and allowances. .
Capital gains	Capital gains are gains arising on the disposal of specified capital assets.
Income from other sources	Income which does not fall in any of the other heads of income, falls under this head of income.

1.4. EXPATRIATES -TAXABILITY

It is a common trend for expatriates to take up employment in Pakistan. All expatriates that are employed at a Liaison Office and a Branch Office in Pakistan are required to obtain a work visa before their employment begins.

Naturally, these expatriates have queries about the taxability of their income in Pakistan. However, there is a unique concept within the residency principle under the tax laws of Pakistan. By virtue of the said concept, a resident individual shall be exempt in respect of his foreign-source income which is not brought/ received in Pakistan **if** he is resident **only by reason of his employment** and he is present in Pakistan for **not exceeding 3 years.** This type of an individual is defined as a “short term resident”.

Furthermore, as per Section 44 of the ITO, any salary received pursuant to an Aid Agreement of the Federal Government with a foreign government or public international organization, by an individual **who is not a Pakistani citizen**, shall be exempt from income tax in Pakistan, if the individual is a non-resident, or is only a resident due to performing of services mentioned in the Aid agreement, and that salary has been paid to the individual out of funds or grants released as aid to Pakistan pursuant to the aid Agreement. Moreover, if the aid Agreement is with a foreign country, then the individual is also required to be a citizen of the foreign country with which Pakistan has signed the Aid Agreement.

Similarly, as per Section 44(3) of the ITO, any income received by any person in Pakistan that has been engaged as a contractor, consultant, or an expert on a project in Pakistan, shall be exempt from tax, to the extent provided for in a bilateral or multilateral technical assistance agreement between the Federal Government and a foreign government or public international organization. Other requirements mentioned in the said sub-section also need to be met.

1.5. TAX RATES

The tax rates for individuals and AOP work under Progressive Tax System i.e person who earns more pay the taxes more whereas in case of companies Proportional or Flat Tax System is workable i.e. irrespective of amount of income, same rate will be applicable. . The general tax rate for companies in Pakistan is 29%, with a couple of other tax obligations applicable as well, such as the Alternate Corporate Tax or the Minimum Tax. The tax rates for companies, individuals and AOPs have been discussed herein below.

1.6. TAX RATE FOR COMPANY

For Financial Year 2023-24

Type of Company	Tax Rate
Domestic Company	29%
Foreign Company	29%
Small Company	20%
Banking Company	39%
Alternate Corporate Tax	17%

Super Tax (Section 4C)	0% to 10%[12]
Super tax for Banking Companies exceeding Rs 300 million	10%[13]
Small and Medium Enterprises (Normal Tax Regime) Where annual business turnover does not exceed Rs 100 million. Where annual business turnover exceeds Rs 100 million but does not exceed Rs. 250 million.	 7.5% of Taxable Income 15% of Taxable Income
Small and Medium Enterprises (option for Final Tax Regime) Where annual business turnover does not exceed Rs 100 million Where annual business turnover exceeds Rs 100 million but does not exceed Rs. 250 million. This option shall be exercised by the SME at the time of the filing of the return and shall be irrevocable for 3 tax years.	 0.25% of Gross Turnover 0.5% of Gross Turnover
Export of Services Export proceeds of Computer Software/IT services, or IT enabled services by persons registered with the Pakistan Software Export Board (PSEB)[14] Any other cases	 0.25% of proceeds (For tax years 2024 up to tax year 2026)[15] 1% of proceeds
[16]**Capital Value Tax on Motor Vehicles of more than 1000cc; and Foreign Assets of resident having value of more than Rs 100 million in aggregate at the end of the tax year.**	1% of the value of vehicle; 1% of the value of foreign asset converted into PKR with the parity rate specified by SBP at the end of the tax year.

1.7. [17]TAX RATES FOR INDIVIDUALS

- **Category 1** (non-salaried situation i.e. where taxable salary is nil or up to 75% of the taxable income)

S.NO	TAXABLE INCOME	RATE OF TAX
1	Up to Rs. 600,000	0%
2	Where the taxable income exceeds Rs.600,000 but does not exceed Rs.800,000	7.5% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 15,000 plus 15% of the amount exceeding Rs. 800,000
4	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 75,000 plus 20% of the amount exceeding Rs. 1,200,000

[12] Slab rates as amended vide Finance Act, 2023
[13] Inserted vide Finance Act, 2022
[14] Inserted vide Finance Act, 2022
[15] Inserted vide Finance Act 2023
[16] Inserted vide Finance Act, 2022
[17] Slab rates amended vide Finance Act, 2023

5	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	Rs. 315,000 plus 25% of the amount exceeding Rs. 2,400,000
6	Where taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 465,000 plus 30% of the amount exceeding Rs. 3,000,000
7	Where taxable income exceeds Rs. 4,000,000	Rs. 765,000 plus 35% of the amount exceeding Rs. 4,000,000

- **Category 2** (salaried class / situation i.e. where taxable salary exceeds 75% of the taxable income)

S.NO	TAXABLE INCOME	RATE OF TAX
1	Where taxable income does not exceed Rs. 600,000	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	2.5% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 15,000 plus 12.5% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,600,000	Rs. 165,000 plus 22.5% of the amount exceeding Rs. 2,400,000
5	Where taxable income exceeds Rs. 3,600,000 but does not exceed Rs. 6,000,000	Rs. 435,000 plus 27.5% of the amount exceeding Rs. 3,600,000
6	Where taxable income exceeds Rs. 6,000,000	Rs. 1,095,000 plus 35% of the amount exceeding Rs.6,000,000

1.8. [18]TAX RATES FOR ASSOCIATION OF PERSONS

S.NO	TAXABLE INCOME	RATE OF TAX
1	Up to Rs. 600,000	0%
2	Where the taxable income exceeds Rs.600,000 but does not exceed Rs.800,000	7.5% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 15,000 plus 15% of the amount exceeding Rs. 800,000
4	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 75,000 plus 20% of the amount exceeding Rs. 1,200,000
5	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	Rs. 315,000 plus 25% of the amount exceeding Rs. 2,400,000
6	Where taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 465,000 plus 30% of the amount exceeding Rs. 3,000,000
7	Where taxable income exceeds Rs. 4,000,000	Rs. 765,000 plus 35% of the amount exceeding Rs. 4,000,000

1.9. SUPER TAX ON HIGH EARNING PERSONS AND BANKING COMPANIES

Super tax, through Section 4C of the Income Tax Ordinance 2001 ("ITO") has been imposed on persons, including banks, earning an income of more than Rs 150 million at rates specified as [19]under. This Super Tax had been imposed from Tax Year 2022 and onwards.

[18] Slab rates amended vide Finance Act, 2023

[19] Slab rates amended vide Finance Act, 2023

S. NO	TAXABLE INCOME UNDER 4C	RATE OF TAX
1	Up to Rs. 150 million	0% of the income
2	Where taxable income exceeds Rs. 150 Million but does not exceed Rs. 200 million	1% of the income
3	Where taxable income exceeds Rs. 200 Million but does not exceed Rs. 250 million	2% of the income
4	Where taxable income exceeds Rs. 250 Million but does not exceed Rs. 300 million	3% of the income
5	Where taxable income exceeds Rs. 300 Million but does not exceed Rs. 350 million	4% of the income
6	Where taxable income exceeds Rs. 350 Million but does not exceed Rs. 400 million	6% of the income
7	Where taxable income exceeds Rs. 400 Million but does not exceed Rs. 500 million	8% of the income
8	Where taxable income exceeds Rs. 500 Million	10% of the income

For Banking Companies rate of Super Tax is prescribed at 10% where their income exceeds Rs. 300 million.

1.10. TAXABILITY OF DIVIDEND

In case of income from dividends, the taxpayer is the shareholder receiving the dividend. However, the tax is required to be deducted by the company declaring the dividend to the shareholder from the dividend income which is taxable under the Final Tax Regime, as full and final tax liability of the shareholder. A shareholder includes a corporate shareholder, and no expense or deduction is allowable from such income.

Rate of tax	Industry
0%	Dividend received by a REIT scheme from a Special Purpose Vehicle.
7.5%	Independent Power Purchasers where such dividend is a pass-through item under an Implementation Agreement or Power Purchase Agreement or Energy Purchase Agreement and is required to be reimbursed by Central Power Purchasing Agency (CPPA-G) or its predecessor or successor entity.
7.5%	Dividends declared by a company as are "attributable" to profits and gains derived from a bagasse and biomass-based co- generation power project qualifying for exemption under clause (132C) of Part-I of Second Schedule
15%	Dividend received from Mutual Fund, [20] Real Estate Investment Trust and other cases not mentioned above and below.
25%	Dividend from a company where no tax is payable by such company, due to exemption of income or carry forward of business losses under Part VIII of Chapter III or claim of tax credits under Part X of Chapter III
35%	Where dividend is received by the investor other than REIT from Special Purpose Vehicle (defined under the Real Estate Investment Trust Regulations, 2015).

[20] Amended vide Finance Act 2021

With a view to incentivize the corporatization of the agricultural sector, dividend income out of corporate agriculture income is exempt.

1.11. DEEMED INCOME

Subject to certain exclusions, tax is imposed on an amount equal to 5% of the Fair Market Value (FMV) of the capital assets situated in Pakistan, owned by a resident person on the last day of tax year at a rate of 20%, as per Section 7E of the ITO. The effective tax rate is, therefore, 1% of the FMV of the subject capital asset. Moreover, the definition of capital assets has been designed in such a way that it only includes immoveable property.

1.12. CAPITAL GAINS

Capital gains are taxed at certain specified rates depending on several factors, such as nature of an asset, duration for which it is held before transfer or disposal, the status of transferor, and inter-alia, relationship with transferor of transferee.

<table>
<tr><th>Type of asset</th><th>Holding period before sale</th><th colspan="3">Rate of Tax</th></tr>
<tr><td>Capital Assets u/s 37
• Shares of a private company
• Membership card having a marketable value
• Share in a partnership firm and
• Certain personal movable assets</td><td>Any</td><td colspan="3">As per Normal Slab Rates</td></tr>
<tr><td rowspan="8">Immovable Property[21]</td><td></td><td>Open Plots</td><td>Constructed Property</td><td>Flats</td></tr>
<tr><td>does not exceed 1 year</td><td>15%</td><td>15%</td><td>15%</td></tr>
<tr><td>exceeds 1 year but not 2 years</td><td>12.5 %</td><td>10%</td><td>7.5%</td></tr>
<tr><td>exceeds 2 year but not 3 years</td><td>10%</td><td>7.5%</td><td>0</td></tr>
<tr><td>exceeds 3 year but not 4 years</td><td>7.5%</td><td>5%</td><td>-</td></tr>
<tr><td>exceeds 4 year but not 5 years</td><td>5%</td><td>0</td><td>-</td></tr>
<tr><td>exceeds 5 year but not 6 years</td><td>2.5%</td><td>-</td><td>-</td></tr>
<tr><td>exceeds 6 years</td><td>0%</td><td>-</td><td>-</td></tr>
<tr><td></td><td></td><td>Filer</td><td colspan="2">Non-filer</td></tr>
<tr><td rowspan="3">Capital Assets u/s 37A
• Shares of a public company</td><td>does not exceed 1 year</td><td colspan="3">0%</td></tr>
<tr><td>exceeds 1 year but not 2 years</td><td>12.5</td><td colspan="2">25%</td></tr>
<tr><td>exceeds 2 years but not 3 years</td><td>10%</td><td colspan="2">20%</td></tr>
</table>

[21] Substituted vide Finance Act, 2022

• Voucher of PTCL • Modaraba Certificates • An instrument of redeemable capital as defined in the Companies Act 2017 • Debt securities; and • Derivative products				
	exceeds 3 years but not 4 years		7.5%	15%
	exceeds 4 years but not 5 years		5%	10%
	exceeds 6 years		0%	0%
	Future commodity contracts entered by the members of Pakistan Mercantile Exchange. Cash settled derivatives traded on stock exchange -		5%	10%
	12.5% rate shall be applicable on disposal of securities acquired between 01-07-2013 to 30-06-2022 and where the securities are acquired before 1st July 2013, the tax rate applicable will be 0%.[22]			
	Gain on units of mutual fund or a collective investment scheme or a REIT scheme.	Individual/AOP	10% for Stock and Other funds	20% for Stock and Other funds
		Company	10% for stock funds 25% for other funds	20% for stock funds 50% for other funds
	Where dividend receipts of a stock fund are less than capital gains then 12.5% shall be deducted, and no capital gain shall be deducted if holding period is more than 6 years. (Applicable only for mutual fund/ collective investment scheme or REIT scheme)[23]			

- Choice of Investment Vehicles for foreign investors.

Forms of Entity	Taxability
Liaison Office (“LO”)	The activities of a LO of a foreign entity are restricted to; undertaking promotional activities for products that are yet to be supplied to or sold in Pakistan, promoting technical and financial collaborations between its principal and taxpayers in Pakistan, provision of technical assistance, exploring the possibility of joint collaboration and export promotion on behalf of its parent company in Pakistan, activities of exploratory or preparatory nature, to investigate the possibilities of trading with, or in Pakistan. Such an office is strictly restricted from entering into revenue generating activities and is required to meet its

[22] Inserted vide Finance Act, 2023

[23] Inserted vide Finance Act, 2022

	operational expenses through remittances from its parent company through normal banking channel and converted to local currency account. Additionally: ● Requirements for approvals for liaison offices of foreign companies shall be permitted by BOI. ● A foreign company LO is required to file prescribed returns/ documents with Registrar of Companies as per provisions of the Companies Act, 2017, after obtaining permission from the BOI. ● The requirements relating to accounts, audit, and submission of accounts to Registrar of Companies are also applicable. ● LO is required to be registered with the tax authorities.
Branch Office (“BO”)	● A foreign entity can operate in Pakistan by establishing a BO. As per industry practice, a BO is set up specifically to execute the contracts awarded to the foreign entity, therefore, activity is restricted to the extent stated in the signed agreement / contract. **A BO cannot indulge in commercial / trading activities.** ● Revenue generated / profit earned from BO activities (other than Banking Operations) can be repatriated to the Head Office, **subject to deduction/payment of applicable taxes**. Such repatriation should be in compliance with the procedure mentioned in the Foreign Exchange Regulations of the SBP through an authorized dealer (banker) under normal banking channels and Tax regulations. ● All expenses incurred from BO activities will be met out of funds transferred from abroad through normal banking channel and converted to local currency account, or from the amounts received through execution of the agreement / contract. ● A foreign company desirous of setting up a BO in Pakistan is required to apply for permission to the BOI on a specified application format along with the prescribed documents / information. ● Permission for opening of branches of foreign banks is granted by the State Bank of Pakistan. ● A foreign company BO is required to file prescribed returns/ documents with Registrar of Companies as per Provisions of Companies Act, 2017 after obtaining permission from BOI. ● The requirements relating to accounts, audit, and submission of accounts to the Registrar of Companies are also applicable.
Pakistan Subsidiary/ Joint Ventures	A foreign company can set up its own wholly owned subsidiary in Pakistan or establish a joint venture company with a Pakistani or foreign partner, subject to fulfilling the policies for FDI and requirements of the Companies Act, 2017. A subsidiary or a joint venture company can be formed as a private company or a public company.
Permanent Establishment (“PE”)	A PE, in relation to a person, is a place of business through which the business of a non-resident is wholly or partly carried out, including: ● A place of management, branch, office, factory or workshop, premises for soliciting orders, warehouse, permanent sales exhibition, or sales outlet, except a liaison office except where the office engages in the negotiation of contracts (other than contracts of purchases). ● An agriculture, pastoral, or forestry property. ● A mine, oil or gas well, quarry, or any other place of extraction of natural resources.

	● A building site, a construction, assembly, or installation project; or supervisory activities connected with such site or project if such activity continued for more than 90 days within any 12-month period. ● The furnishing of services, including consultancy services, by any person through employees or other personnel or other entity engaged by the person for that purpose. ● A person acting in Pakistan on behalf of the person, other than an agent of independent status (excluding a person acting exclusively/almost exclusively on behalf of such person) in the ordinary course of business as such, if the agent: (i) has habitually exercises authority to conclude contracts on behalf of another person or plays a principal role in execution of contacts that are concluded without any material variations and these contracts are: ○ in the name of the person ○ for the transfer of the ownership of or for the granting of the right to use property owned by that enterprise or that the enterprise has the right to use, or for the provision of services by that person. (ii) has no such authority, but habitually maintains a stock-in-trade or other merchandise from which the agent regularly delivers goods or merchandise on behalf of the other person; ● Any substantial equipment installed, or other asset or property capable of any activity giving rise to income. ● A place of business that is used or maintained by a person if the person or an associate of a person carries on business at that place or at another place in Pakistan and: ○ that place or other place constitutes a PE of the person or an associate of the person under this sub-clause, or ○ business carried on by the person or an associate of the person at the same place or at more than one place constitutes complementary functions that are part of a cohesive business operation. ● Virtual business presence in Pakistan including any business where transactions are conducted through internet or any other electronic medium, with or without having any physical presence.[24] The definition of a PE provided in a Double Taxation Treaty ("DTT") will prevail in cases where a DTT is executed by Pakistan with the related country of origin of the PE.
Controlled Foreign Company ("CFC")	The concept of CFCs has been around since decades. However, this concept has been introduced in Pakistan in 2018. Moreover, recommendations to strengthen the CFC rules were also a crucial part of the Base Erosion and Profit Shifting (also known as "BEPS") initiative taken by the OECD. The BEPS Action 3 report set out certain recommendations to improve the CFC rules back in 2015. The purpose of having CFC rules is to counter structures imposed by taxpayers to shift income from the jurisdiction in which they are tax resident to a foreign tax haven using a corporate veil in that foreign jurisdiction. The primary catch is the taxpayer having a 'controlling interest' in a foreign company, hence the term "**controlled** foreign company".

[24]Added vide Finance Act 2023.

	Section 109A of the ITO 2001 appears to be a part of the overall scheme to bring into tax ambit the income earned by Pakistani tax residents, through offshore entities owned by them. This scheme, termed as CFC regime, is summarized as under: (a) A company shall be considered CFC if i. Capital or voting rights of the non-resident company, held directly or indirectly by the person resident in Pakistan are: - More than 40% in case of single person; - More than 50% in case of two or more persons; ii. Tax paid, after rebate, on the income of the non-resident company outside Pakistan is less than 60% of tax otherwise payable on the said income in Pakistan assuming that the company is a resident company taxable in Pakistan under the Income Tax Ordinance, 2001; iii. The non-resident company is not listed in any stock exchange outside Pakistan; and iv. The non-resident company does not derive active business income. (b) The income of CFC taxable in the hands of Pakistani residents shall be as per the following **A*(B/100)** Where **A**= income of CFC **B**=% of capital or voting rights whichever is higher held by the resident person in CFC (c) Income of CFC shall be calculated in foreign currency but for the purpose of inclusion in the income of the resident person it shall be converted into Rupees at the State Bank of Pakistan rate applicable on the last day of the tax year. (d) The income taxable under this section shall not be taxable again when received in any subsequent tax year. A tax credit shall be allowed in case of tax paid on dividend income in the foreign country in any subsequent tax year as lower of following: - Foreign tax paid - Pakistan tax payable on such dividend income in the tax year in which the dividend is received (e) These provisions shall not apply in the following cases: - Income of CFC is less than Rs. 10 million - Capital or voting rights of the resident person in CFC is less than 10%.

1.13. TAXATION OF BUSINESS TRUSTS

Real Estate Investment Trusts (REIT) Collective/ Investment Schemes

REIT being a notified entity of a licensed NBFC makes direct investment in Real Estate properties, Stocks, and Shares listed on recognized stock exchange which generates rent, dividends and capital gain. REIT may also invest in SPVs (acquiring at least 75%controlling stake) which are holding real estate properties either for rent or capital appreciation or hybrid aforesaid two motives. As an acknowledgement of investing in, REIT issue nonvoting units to investors which may be or may not be listed in the Pakistan stock exchange.

Stakeholders	Income Source	Taxability
REIT/Collective Investment Schemes including SPV owned by REIT	Any income.	Exempt subject to 90% or more distribution of accounting income as reduced by accumulated losses and capital gains whether realized or unrealized [clause (99), Part I, 2nd Schedule].

1.14. MINIMUM TAX

The income tax laws of Pakistan prescribe a 'Minimum Tax'. What this means is that, there are certain legal provisions within the ITO, whereby, a business entity's tax liability shall not be less than the specified amount or percentage of turnover/ net profit etc. The provisions of minimum tax are as under:

a) The following business entities shall pay tax at the rate of 1.25% of turnover if their tax liability is nil or less than 1.25% of turnover. This section shall apply even if the income of the business entity is exempt from income tax or no tax is otherwise payable on account of loss for the tax year, brought forward loss, tax credit, depreciation etc.:

   i. A resident company
   ii. An Individual or AOP having turnover of Rs 100 million or above in the tax year 2017 or in any subsequent tax year.[25]
   iii. Permanent Establishment of non-resident.[26]

b) Turnover has been defined as:

   i. Sale of goods exclusive of
      - Sales tax;
      - Federal Excise duty;
      - Trade discount shown on invoices; and
      - Sales/ receipts taxable under FTR.
   ii. Gross fee for services, commission and gross receipts from contracts excluding FTR receipts.
   iii. The Company's share of turnover, fees for services, commission and gross receipts from contracts of any AOP of which the company is a member excluding those covered under FTR.

c) Minimum tax in excess of normal tax liability shall be carried forward and adjusted against the tax liability of subsequent [27]**3** tax years.

d) Above minimum tax provisions are not applicable in case of certain persons if they meet the conditions set out in clause 11A Part IV 2nd Schedule to the ITO. It is pertinent to note that a specific carve-out from the minimum tax provisions has also been created for Small and Medium Enterprises, as per Clause 7 of the Fourteenth Schedule to the ITO.

e) The turnover in this Section covers receipts from all business activities including but not limited to receipts from sale of immovable property where such receipt is taxable under the head Income from Business.

[25] Amended vide Finance Act 2021
[26] Amended vide Finance Act 2020
[27] Amended from "5" to "3" vide Finance Act, 2022

EXAMPLE (for an individual falling in S.113)

Turnover for Tax Year 2024	Rs 160,000,000
Taxable income	Rs 4,000,000
Income tax calculated as per 1st Schedule	Rs 765,000
1.25% of turnover	Rs 2,000,000

Income Tax payable on taxable income of Rs 4,000,000 will be Rs 2,000,000 instead of Rs. 765,000 and minimum tax [Rs 2,000,000] in excess of income tax calculated as per applicable tax rates [Rs 765,000] amounting to Rs 1,235,000 can be carried forward till the following 3 years for adjustment against the income tax payable calculated as per applicable tax rates on taxable income, to the extent it exceeds the minimum tax of that year.

1.15. ALTERNATIVE CORPORATE TAX

Corporate taxpayers are liable to pay higher of the following:

Tax liability calculated under General Provisions of ITO

- Computed at 29% of taxable income as applicable
- Minimum tax computed under section 113 @ 1.25% of turnover.

Alternative Corporate Tax

- Means tax calculated at the rate of 17% of the accounting income of the company
- Accounting income means the accounting profit before taxes as disclosed in the financial statements.

In case ACT liability exceeds Corporate Tax, the excess will be carried forward to the following years till a period of not more than 10 years.

EXAMPLE

Total Receipts:	200
Total Expenses	50
Accounting Income as per accounts	150
Taxable Income	25
Breakup of total receipts	
Export Sales	20
Contract Receipts	30
Business Receipts	130
Dividend Receipts	10
Exempt Income	10

Computation of Accounting Income for calculating ACT

a. Total Receipts in the accounts 200

b. Less amounts covered under exemption/ FTR 113C (8)

Export Sales	20
Dividend Receipts	10
Exempt income	10

c. Receipts pertaining to accounting income for section 113C(a-b) = 200 -40 = 160

Less: apportionment of expenses

Percentage of receipts of accounting income u/s 113C	80%
d. 80% of total expenses	40
Accounting income for ACT = (c-d) = (160-40)	**120**

Computation of total tax liability

A. Tax Liability under ACT @ 17% of 120	20.4
B. Corporate Tax @ 29% of 25	7.25
C. Turnover Tax (200-30) @ 1.25%	2.125

As A is higher, A or tax liability under ACT will apply

D. Final tax liability

Export sales @1%	0.2
Contract Receipts @ 7.5%	2.25
Dividend @15%	1.5
Total Final Tax	3.95
Total tax payable (A+C) (20.4+3.95) =	24.35

1.16. FINAL TAX REGIME

To ease the determination of tax liability and tax compliances, specified persons or income are permitted to pay tax on a small percentage of their gross receipts, thereby dispensing any need to prepare detailed accounts or to undergo tax audit. The requirements of maintenance of minimum books of account and records under Rule 30 of the Income Tax Rules, 2002 are not attracted in case of business income where tax collectible or deductible is the final tax (Circular 14 of 2002).

Head of Income	TAX RATE
Dividend Received by a REIT Scheme from Special Purpose Vehicle	0%
Dividend Income of Shareholders from Independent Power Purchasers where such dividend is a pass-through item under an Implementation Agreement or Power Purchase Agreement or Energy Purchase Agreement and is required to be reimbursed by Central Power Purchasing Agency (CPPA-G) or its predecessor or successor entity.	7.5%
Dividend declared by a company as are attributable to biomass based co-generation power project.	7.5%
Dividend received from mutual fund and REITs, and cases other than those mentioned for specific rates	15%
Dividend from a company where no tax is payable by such company, due to exemption of income or carry	25%

forward of business losses under Part VIII of Chapter III or claim of tax credits under Part X of Chapter III	
Non-Resident person carrying on Shipping activities/ air transport income	8% in case of shipping income, 3% in case of air transport income, of the gross amount of freight received or receivable on account of carriage of passengers, livestock, mail or goods shipped at any port in/outside Pakistan.
[28]Any resident person carrying on Shipping business, where ships and all floating crafts including tugs, dredgers, survey vessels and other specialized craft purchased or bare-boat chartered and flying Pakistan flag registered with SECP after 15th November 2019	one US $ per gross registered tonnage per annum
Any resident person carrying on Shipping business, ships, vessels and all floating crafts including tugs, dredgers, survey vessels and other specialized craft not registered in Pakistan and hired under any charter other than bare-boat charter.	15 cents per gross registered tonnage per chartered voyage. However, such tax cannot exceed the threshold of $1 per ton of gross registered tonnage per annum.
[29] Resident ship owning company carrying on Shipping business, registered with SECP after 15th November 2019, having its own sea worthy vessel registered under the Pakistani Flag.	75 US Cents per gross registered tonnage per annum.
Exports	1% on export proceeds from direct exporters and indirect exporters.
Exports of Services	0.25% of exports proceeds in case of IT and IT enabled services. 1% of export proceeds in case of other services.
Petrol Pump Operators	12% on gross amount of commission for taxpayers in the active tax list (24% for non-filers).
Income of non-resident media persons	10% of the gross amount.
Income of foreign produced commercials	20% of the gross amount.
Sale of right to collect tolls	10% (20% for non-filers).
[30]Income of builders and Developers registered for the purpose of Eleventh Schedule	As per rates given in Eleventh Schedule of ITO on basis of covered area and location.
Profit on debt	15% if amount is less than Rs. 5 million 10% in specified cases

It may also be noted that the Finance Act 2021 introduced an option for Small and Medium Enterprises to be taxed under the FTR. By virtue of the said Act, the **Fourteenth Schedule** has been introduced in the ITO. As per Clause 4 of the Fourteenth Schedule, there are two categories of SMEs that can opt for the FTR. The criterion for both categories is based on a certain threshold of turnover. The first category of SMEs is those which have an annual turnover that does not exceed the threshold of PKR 100 million. The tax rate for such SMEs is 0.25% of their gross turnover. Moreover, the second category is where the annual turnover of the SME is more than

[28] Amended vide Finance Act 2020
[29] Amended vide Finance Act 2020
[30] Amended vide Finance Act 2020

PKR 100 million but does not exceed PKR 250 million. Where an SME falls within the second category, the tax rate prescribed is 0.5% of their gross turnover. However, there are a couple of things that are crucial to note here. The first is that this option for being taxed under the FTR can only be exercised under clause 4(2) of the Schedule, at the time the SME is filing its return of income. Secondly, this option once exercised, cannot be revoked for three tax years.

1.17. TAX DEADLINES

Every taxpayer is required to submit number of returns and statements, such as:

- Annual filing of:
  - Return of Income as required in section 114 together read with section115
  - Wealth Statement (in case of resident individual)
  - Wealth Reconciliation Statement (if applicable)
  - Foreign income and Assets statement as required in section 116A for resident individual.
- Quarterly deposition of advance tax by each company/AOP and individual having latest taxable income exceeding 1 million.
- [31]Quarterly deposition of withholding tax statements by withholding agents on or before 20th October, 20th January, 20th April and 20th July each year, for each quarter.
- Annual withholding tax statement by employer
- Notice of Discontinued Business
- A Notice of the person likely leaving Pakistan, during a tax year, with no intention to return back. The said notice shall be given to the Commissioner not less than 15 days before the 'probable date' of his departure along with tax returns as per Section 145 of the ITO.

To be submitted by:

- **30th September:**
  - Return of income by an individual or AOP.
  - Return of income by a company having year end between 1st July to 31st December
- **31st December:**
  - Return of income by a company having year end between 1st January and 30th June.

1.18. TAXATION OF PERSONS NOT APPEARING ON ACTIVE TAXPAYERS LIST ("ATL")

A 10th Schedule has been included in the ITO, whereby rules have been prescribed for persons (individual, AOP and companies) not appearing in ATL issued by FBR. These rules are as follows:

- The rate of withholding tax for certain provisions will be enhanced by 100% and in case of S.231B 200% and Section 236K 250%
- Person not liable to file Return of Income can get exemption certificate from Commissioner to avoid enhanced withholding. If the Commissioner does not issue the exemption certificate within 30 days, permission not to deduct tax at 100% enhanced rate shall be deemed to be granted.
- If enhanced tax has been deducted and person still does not file return, the commissioner can pass provisional assessment order within time limit prescribed.

1.19. PURCHASING OF ASSETS THROUGH BANKING CHANNEL

In order to discourage cash transaction and to document the economy, the purchase of following assets is required to be made only through crossed cheque drawn on a bank or through crossed demand draft or crossed pay order

[31] Amended vide Finance Act 2020

or any other crossed banking instrument showing transfer of the amount from one bank account to another bank account:

- Immovable property having fair market value greater than Rs 5 million; or
- Any other asset having fair market value more than Rs 1 million.

If transaction does not adhere to above requirement, the depreciation/amortization and cost for computation of capital gain will be disallowed in addition to, in case of immovable property, a penalty amounting to 5% of the purchase value.

1.20. PAYMENT THROUGH DIGITAL MEANS[32]

To promote the payment of any expenses of companies to be made through digital means, there has been an amendment in Section 21 of the ITO. Through this amendment, the Federal Government has disallowed any expense, whether paid or payable under a single account, head that exceeds an aggregated amount of PKR 250,000/- and is not paid through digital means from the business bank account of the taxpayer company. However, there are a few exceptions to this general rule. These exceptions are as follows:

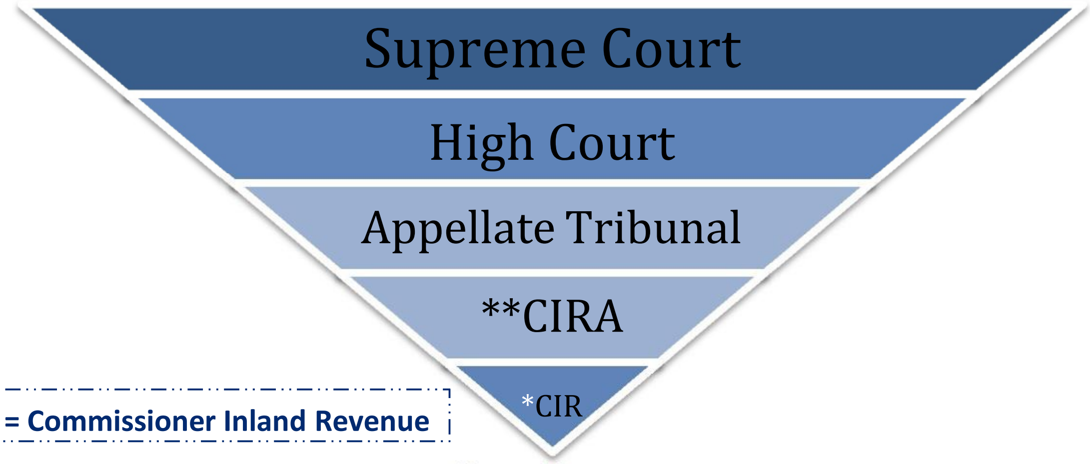
Expense under a single account head does not exceed Rs 250,000 in aggregate in a year.

- Transaction of expenditures not exceeding Rs 25,000.
- Expenditures on account of:
    - Utility bills;
    - Freight charges;
    - Travel fare;
    - Postage; and
    - Payment of taxes, duties, fee, fines or any other statutory obligation.

These provisions are applicable subject to notification by the FBR. As no such notification has yet been issued, the above requirements are not yet applicable.

1.21. TAX ADMINISTRATION AND DISPUTE RESOLUTION

- In certain circumstances, the Board shall subject the taxpayer to an audit. This process is called an assessment by FBR in Pakistan.
- If a taxpayer is unhappy with the assessment, he can challenge the assessment in the appeals process, starting from Commissioner (Appeals) till Supreme Court, as under



*** CIR = Commissioner Inland Revenue**

****CIRA = Commissioner Inland Revenue (Appeals)**

[32] Inserted vide Finance Act, 2022.

1.22. ALTERNATIVE DISPUTE RESOLUTION

The Alternative Dispute Resolution mechanism (also known as "ADR"), is a system that operates side by side with the existing conventional appellate system, but with simple procedures and less technicalities.

The provisions of ADR shall apply in the following circumstances where;

- Tax liability is PKR 100 million or above;
- Refund is admissible;
- Waiver of default surcharge and penalty; or
- Any other specific relief is required to resolve the dispute;

An application shall be made to the Board for appointment of a committee for the resolution mentioned in detail in the application, and shall accompany an initial proposition for resolution of the dispute, including an offer of tax payment.

The Board may appoint the Committee within 15 days of receipt of such application, provided that it shall be a deemed stay until the Committee Orders or the Committee is dissolved, whichever is earlier.

The Order of the committee shall be binding on the Commissioner where aggrieved person is satisfied with the decision and withdraws the appeal pending before any court of law or any appellate authority and has communicated the withdrawal order within 60 days of service of the decision of the Committee upon the aggrieved person.

Aggrieved person shall make payment of income tax and other taxes within the time decided by the Committee. If the Committee fails to decide within 60 days, the board shall dissolve the Committee by a written order and the dispute shall be decided by the court of law or appellate authority. Dispute or hardship can be pending in any court of law.

However, the application for ADR shall not be entertained where criminal proceedings have been initiated.

1.23. AVOIDANCE OF DOUBLE TAXATION AND UNILATERAL RELIEF

Tax treaties to avoid double taxation are entered into by countries so that there can be legal certainty regarding economic double taxation (mainly transfer pricing) and international juridical double taxation. International juridical double taxation occurs where there has been taxation on the same taxpayer with respect to the same income in two or more jurisdictions.[33] An example is where Mr. X, a resident of State X for tax purposes, is taxed on his worldwide income, and he earns income in State Y that also taxes the same income. In this situation Mr. X will be taxed in both States on the same income, hence this will be a case of international juridical double taxation. Tax treaties between two countries allocate taxing rights, hence they provide legal certainty to remedy or mitigate double taxation. On the other hand, economic double taxation arises where tax has been levied on the same income, but in the hands of different taxpayers in two or more jurisdictions.[34] Pakistan has entered into agreements for avoidance of double taxation (DTAAs) with the following countries, including those where the conventions restrict the taxation of income from international air / shipping traffic. These DTAAs get their legal basis from Section 107 of the ITO.

[33] OECD, Manual on Effective Mutual Agreement Procedures (February 2007) 8 accessed on 11th October 2021.

[34] Ibid

A. FULL SCOPE TREATY:

S. NO	Country	Maximum Tax Rate		
		Interest Rate	Royalties	Fee for Technical Services
1	Hong Kong	10	10	12.5
2	Brunei Darussalam	15	15	15
3	Czech Republic	10	10	10
4	Nepal	15	15	15
5	Ukraine	10	10	N/A
6	Kyrgyz Republic	10	10	N/A
7	Spain	10	7.5	10
8	Serbia	10	10	10
9	Yemen	10	10	10
10	Vietnam	15	15	15
11	United State of America	N/A	N/A	N/A
12	Uzbekistan	10	15	0
13	United Arab Emirates	10	12	12
14	United Kingdom	15	12.5	12.5
15	Turkmenistan	10	10	0
16	Tunisia	13	10	0
17	Turkey	10	10	0
18	Tajikistan	10	10	0
19	Thailand	25	20	0
20	Saudi Arabia	10	10	0
21	Syria	10	18	0
22	Switzerland	10	10	10
23	Sweden	15	10	10
24	Srilanka	10	20	0
25	Singapore	12.5	10	10
26	Romania	10	12.5	0
27	Qatar	10	10	10
28	Portugal	10	10	10
29	Poland	0	25	0
30	Philippines	15	25	0
31	Oman	10	12.5	12.5
32	Norway	10	12	12
33	Nigeria	15	15	0
34	Netherlands	15	15	0
35	Morocco	10	10	10
36	Mauritius	10	12.5	0
37	Malta	10	10	0
38	Malaysia	15	15	0
39	Lebanon	10	7.5	0

S. NO	Country	Maximum Tax Rate		
		Interest Rate	Royalties	Fee for Technical Services
40	Libya	N/A	N/A	N/A
41	Korea	12.5	10	0
42	Kazakhstan	12.5	15	0
43	Kuwait	10	10	0
44	Jordan	10	10	10
45	Japan	10	10	10
46	Italy	30	30	0
47	Ireland	10	10	10
48	Iran	10	10	0
49	Indonesia	15	15	15
50	Hungary	15	15	15
51	Germany	20	10	10
52	France	10	10	10
53	Finland	15	10	10
54	Egypt	15	15	15
55	Denmark	15	12	12
56	Chine	10	12.5	12.5
57	South Africa	10	10	10
58	Canada	25	15	0
59	Bosnia and Herzegovina	20	15	0
60	Belarus	10	15	0
61	Belgium	15	20	0
62	Bangladesh	15	15	0
63	Bahrain	10	10	10
64	Azerbaijan	10	10	0
65	Austria	15	10	10

B. LIMITED SCOPE TREATY

Sr #	Countries
1	India (Air Transport Agreement)
2	Saudi Arabia
3	Kenya
4	Jordan (Treaty Partners)

As can be seen above, Pakistan has a reasonable DTA treaty network. If we compare the number of DTAAs Pakistan has signed with other countries in the region, Pakistan has a relatively larger DTAA treaty network. India has signed DTAAs with around 100 countries[35], whereas, Bangladesh has signed DTAAs with 36

[35] PWC, 'India- Individual – Foreign tax relief and tax treaties' < India - Individual - Foreign tax relief and tax treaties (pwc.com)>accessed on 11th October 2021.

countries.[36] Moreover, Sri Lanka has a DTTA treaty network that consist of 44 countries.[37] The main reason behind the signing of these DTAAs is to allocate taxing rights on the covered categories of income to either the resident jurisdiction (where the taxpayer is resident) or the source jurisdiction (where the income is sourced). This mitigates the possibility of juridical double taxation. Moreover, the DTAAs also cover the situation wherein the taxpayer is a dual tax resident, i.e tax resident in two jurisdictions at the same time. Therefore, there is increased certainty of taxing rights within the treaty network of a country, when a taxpayer is a dual resident. Recently, Pakistan has become a signatory to the Multilateral Convention (MLI) to Implement Tax treaty related measures to prevent BEPS and has enforced the changes made by the MLI through SRO 405(I)/2021.

However, if there is no tax treaty with any jurisdiction, double taxation is regulated through Section 103 of the ITO, which provides for a tax credit in respect of foreign source income chargeable to tax in Pakistan, if foreign income tax has been paid in respect of foreign source income, equal to the lesser of:

- The foreign income tax paid, or
- Pakistan income tax payable in respect of the net foreign source income at average rate of tax.

A credit shall be allowed under this provision only if the foreign income tax is paid within two years, after the end of the tax year in which the foreign income to which the tax relates was derived by the resident taxpayer. However, as per Section 102 of the ITO, in case of foreign source salary due to employment exercised outside Pakistan, the same will be exempt on the basis of foreign income tax paid or deduction of withholding tax by the employer.

The most common types of income of nonresidents comprises are of interest, dividends, royalties, fee for technical services and capital gains. Above table depicts the maximum tax rate which the contracting states that have signed a tax treaty with Pakistan can charge to nonresidents. There is no such limit on capital gain.

1.24. ANTI-AVOIDANCE

Anti-avoidance provisions are present and used in a tax system to prevent base erosion and profit shifting. Similarly, the ITO has a few anti-avoidance provisions which help the tax authority in preventing tax avoidance. These are as follows:

- Section 108: This section is the legal authority for situations concerning transfer pricing. It covers transactions between associates, and empowers the Commissioner to “distribute, apportion or allocate income, deductions or tax credit between the persons as is necessary to reflect the income that the persons would have derived in an arm’s length transaction.” Moreover, this section also places compliance requirements for persons that have transactions between their associates. Some of the requirements are to maintain a master and a local file, keep a country-by-country report (also known as “CbCR”). These are in-line with the best practices internationally. However, the prescribed files, documents, information and reports are yet to be notified by the Board.[38]
- Section 109 (a): This sub-section is a General Anti-Avoidance Rule (also known as “GAAR”). A GAAR is usually present in the law to prevent unacceptable tax avoidance schemes.[39] As per this sub-section, the Commissioner may recharacterize a transaction or an element of a transaction that was entered as part of a tax avoidance scheme. The subtlety of this section is that it has been drafted in such a way that it has merged

[36] KPMG, ‘Other issues- Double taxation treaties’https://home.kpmg/xx/en/home/insights/2021/05/bangladesh-thinking-beyond-borders.html accessed in 11th October 2021.

[37] PWC, ‘Srilanka- Treaty WHT Rates’ < Sri Lanka - Corporate - Withholding taxes (pwc.com)> accessed on 11th October 2021

[38] Huzaima and Ikram, Law & Practice of Income tax (December 2020, vol 1 5th Edition) 702

[39] IMF, ‘Introducing a GAAR’ ((1) 2016) 1 <https://www.imf.org/external/pubs/ft/tltn/2016/tltn1601.pdf>

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the definition of 'tax avoidance scheme' with the 'main purpose' test. What this means is that a tax avoidance scheme will only be present for the purposes of Section 109(a), if one of the main purposes of a transaction was to avoid or reduce his/her tax liability.

- Section 109(b): The Commissioner may disregard a transaction that does not have substantial economic effect.
- Section 109(c): The Commissioner may re-characterize a transaction where the form of the transaction does not reflect the substance.
- Section 109(d): From TY 2018 and onwards, the commissioner has been empowered to disregard corporate structures or an entity that doesn't have an economic or a commercial substance or was created as part of a tax avoidance scheme. The second part of this subsection is also a GAAR.
- Section 109 (e): From tax year 2018 and onwards, treat a place of business in Pakistan as a permanent establishment, if the said place fulfills the conditions of Cohesive Business Operations within the meaning of S2 (41) (g).

1.25. ORGANISATION FOR ECONOMIC COOPEARTION AND DEVELOPMENT

The Organization for Economic Cooperation and Development (OECD) has been the institution to lead the way for tackling issues related to international taxation and bringing in reforms in the international tax sphere. A key aspect in that regard has been the multilateral convention on Mutual Administrative Assistance in Tax Matters (MAATM) that was developed jointly by the OECD and the council of Europe.[40] It gives the signatories to the MAATM, the legal basis for automatic and spontaneous exchange of information. Pursuant to Article 6 of the MAATM, several jurisdictions have signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (MCAEOI) and a global model of Common Reporting Standard (CRS) for the automatic exchange of information with respect to financial accounts.

Pakistan has joined both MAATM and the MCAEOI. For implementation of CRS in Pakistan, necessary legislative changes have been made in the ITO and the Income Tax Rules, 2002 to collect and provide relevant financial accounts information to the foreign tax jurisdictions. Hence, Pakistan has put in place all the necessary legislative and administrative measures and other relevant safeguards to implement the CRS and is exchanging financial accounts information with partner jurisdictions since September 2018.

As mentioned earlier, the OECD in the past decade undertook to tackle base erosion and profit shifting, through the BEPS project. They authored a comprehensive report on several different action plans, and provided recommendations. An example that has been discussed previously is the strengthening of the CFC regulations. The BEPS Project sought to identify the gaps and mismatches in tax rules and eliminate the tax planning strategies/schemes that are used to artificially shift profits into jurisdictions that have low or no taxation where there is barely any economic activity, or use deductible payments such as interest or royalty to erode the tax base of a country.[41] Furthermore, the OECD has also authored a comprehensive report on hybrid mismatches that can lead to double non-taxation

1.26. AUTOMATIC EXCHANGE OF INFORMATION

As mentioned earlier, pursuant to Article 6 of the MAATM, several jurisdictions have, through their Competent Authorities, of the Parties to the Convention have signed the MCAEOI.

In the Finance Acts of 2015 and 2016, Pakistan introduced section 165B and made certain amendments to section 107 of the ITO respectively, thus providing primary legislation for the purpose of automatic exchange of information in line with international standard(s). Moreover, Section 107(1B) guarantees the confidentiality of

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[40] OECD, 'Convention on Mutual Administrative Assistance in Tax Matters' <https://www.oecd.org/tax/exchange-of-taxinformation/convention-on-mutual-administrative-assistance-in-tax-matters.htm> accessed on 25th September 2021

[41] OECD, 'What is BEPS?' <https://www.oecd.org/tax/beps/about/> accessed on 11th October 2021

the information received by virtue of the bilateral and multilateral treaties, except for cases mention in Section 216(3) of the ITO.

Furthermore, changes were also made to the Sales Tax Act, 1990 and Federal Excise Act of 2005. Moreover, through the Finance Act 2017, an explanation was inserted in Section 165B of the Income Tax Ordinance, 2001 in order to bring more clarity and to quell any hint of ambiguity involving the terms "reportable person" and "financial institution" as assigned in the CRS.

1.27. MUTUAL LEGAL ASSISTANCE

A mutual legal assistance treaty (MLAT) is an agreement between two or more countries for the purpose of gathering and exchanging information in an effort to enforce public or criminal laws.

The **United Nations Convention against Corruption (UNCAC)** is a multilateral convention that can help in extradition and can aid in providing mutual legal assistance in cases pertaining to corruption. Pakistan has signed the said convention on 9th December 2003 and ratified the same on 31st August 2007.[42] Moreover, Pakistan is also a signatory to the **United Nations Convention against Transnational Organized Crime (UNTOC), having signed the UNTOC** on 14th December 2000. Pakistan also ratified the UNTOC on 13th January 2010.[43].

1.28. BENAMI LAW

In 2017, the Pakistan Benami Transactions (Prohibition) Act, 2017 was enacted to curb the huge parallel economy in Pakistan. The Act provided a mechanism and a procedure for confiscation of property held as Benami and for matters connected therewith or incidental thereto. To provide the procedural framework for implementation, the Federal Government has enacted Benami Transactions Rules through the SRO 326 dated 11 March 2019.

1.29. ANTI MONEY LAUNDERING LAW

Pakistan introduced first standalone Anti Money Laundering law in September 2007 through promulgation of Anti-Money Laundering Ordinance 2007. This was followed by Anti-Money Laundering Ordinance 2009 and Anti-Money Laundering Act 2010. Presently, the Pakistan AML/CFT regime is regulated through following legislation:

• The Anti-Money Laundering Act 2010 (AML Act)

• The Anti-Terrorism Act 1997 viz. basic legal framework for counterterrorism prosecutions in Pakistan.

• The Anti-Money Laundering Regulations 2015

The Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations 2020 is applicable to SECP regulated entities. SECP has also issued Guidelines on implementation of Regulations.

The National Anti-Money Laundering and Counter Financing of Terrorism Authority-Pakistan ("Authority") has also been established vide The National Anti-Money Laundering and Counter Financing of Terrorism Authority Act, 2023. The Authority shall be a **body corporate** and shall have the following characteristics:

1. Perpetual succession;
2. Common seal with powers

[42] United Nations, 'Signature and Ratification Stats' accessed on 17th October 2021 35 United Nations, 'Treaty Collection' accessed on 17th October 2021

[43] United Nations, 'Treaty Collection' <https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XVIII12&chapter=18&clang=_en#EndDec> accessed on 17th October 2021

3. Acquire/hold property, movable and immovable;
4. Sue and be sued by its name; and
5. Administrative and financial powers.

The Authority shall ensure implementation is being made through relevant competent authorities regarding:

1. Anti-money laundering ("AML")
2. Countering of financing of terrorism ("CFT"); and
3. Targeted financial sanctions ("TFS").

Further powers and functions of the authority will be as under:

1. Act as a focal point for the Financial Action Task Force ("FATF") and related international organizations/ bodies and carry out liaison with competent authorities for facilitating cooperation in areas related to AML, CFT, TFS;
2. Coordinate and oversee implementation of national strategy to fight money laundering, CFT, TFs and approve national action plans for implementation of such national strategies.
3. Review from time to time National policies and Laws and regulations and propose amendments to the Federal Government.
4. Coordinate at policy level and provide policy advice to the federal/provincial/local competent authorities and provincial governments to maintain uniformity at national level.
5. Formulate rules and regulations and conditions, grant additional allowances/rewards/other incentives to the employees of the Authority. Provided that it's with consultation with the Finance Division after the approval of the Federal Government)
6. Enter into any agreement/MOU/Protocols with counterpart national or international organizations regarding AML, CFT, TFS. However, it should not override powers of any competent authority to enter into such arrangements.
7. Discuss and deliberate any other issue of national importance regarding AML, CFT and TFS

*Except for (7), all the above can be delegated to the Chairman of the Authority.

The chairman of the authority shall be appointed by the **PM for 3 years** and shall be eligible for reappointment. (S)he shall not be removed from the office before the expiry of the term unless in case of gross misconduct / incapability due to physical or mental incapacity. Furthermore, no proceedings in case of removal due to the above would be made without prior issuance of a show cause notice and opportunity of being heard. However, the Chairman may tender resignation under his own hand to the PM. In case of absence of the Chairman, the Director General shall act as a Chairman with all functions and powers of the Chairman.

The functions and powers of chairman shall be as under:

1. Exercise general control and supervision over the affairs of the Authority;
2. Be the Principal Accounting Officer of the Authority;
3. Ensure that the provisions of the Act, rules, regulations, policies and directions of the Authority are properly executed;
4. May delegate any functions/powers to the Director General with terms and conditions as appropriate.

Director General of the Authority

1. Appointed by the PM upon recommendation of the Authority
2. Term of 3 years with eligibility of being re-appointed;
3. Shall not exceed 65 years of age at the time of appointment/re-appointment. If he does during the term, he shall be deemed to be retired.
4. Qualifications:

a. Professional of known integrity and competence;
b. Shall be either:
    i. Retired civil servant (BS 21 or +);
    ii. Serving civil servant (BS 21 or =);
    iii. Officer of the Authority having at least 5 years of experience.
c. Have minimum, 25 years post qualification experience in:
    i. Law
    ii. Administration
    iii. Taxation
    iv. Finance and
    v. Legal matters
    vi. Including minimum 10 years' experience in senior management position in the relevant field.
d. Should have an understanding in AML, CFT, TFS laws, rules, regulations and procedures.

5. Shall assist the Chairman in the performance of his duties
6. Powers and functions:
    a. Coordinate and propose necessary instructions, guidelines to competent authorities, Federal/Provincial ministries, local gov. authorities on implementation of AML, CFT, TFS, National action plans, and analyze data received, identify gaps and report to the authority about implementation of these plans on a periodic basis.
    b. Set up committees, sub-committees, working groups and compliance with Pakistan's commitments/ obligations with requirements of concerned international organizations with whom Pakistan is in coordination with.
    c. Issue necessary directions to competent authorities;
    d. Seek reports from competent authorities responsible for compliance with AML, CFT, TFS;
    e. Seek input and coordinate formulation of risk assessments with periodical reviews for making adequate and timely efforts to counter money laundering, terrorism and TFS;
    f. Establish central data base of all relevant data fields related to AML, CFT, TFS through the development of online data management system.
    g. Carry out research on topics relevant to money laundering, financing of terrorism and TFS and to prepare and circulate documents if deemed necessary;
    h. Have financial and administrative powers for effective administration of the authority as approved by the Chairman;
    i. Issue notices of meeting of the Authority and maintain proper records of minutes and proceedings;
    j. Perform other functions as delegated by the Chairman.
        i. In the absence of the DG, the senior most officer in the Authority shall act as a DG.
    k. DG, by special order, may delegate his powers and function to any other senior officer of the Authority.

The DG may delegate his powers and functions sparingly and not as a rule.

1.30. RECORDS SHARING BY NADRA[44]

NADRA is allowed to share its records or any information available or held by it, on its own motion or upon application by FBR. The Ordinance provides that FBR may forward such information to the concerned income

[44] Inserted vide Tax Laws (Third Amendment) Ordinance, 2021

tax authority having jurisdiction in relation to the subject matter regarding the information, who may utilize the information for the purposes of ITO. NADRA is allowed to compute indicative income and tax liability.

1.31. THRESHOLD ON IMMUNITY ON FOREIGN REMITTANCE

Prior to Income Tax (Amendment) Ordinance, 2018, any amount of foreign exchange remitted from outside Pakistan through normal banking channel and encashed into Pak Rupees could not be subject to any enquiry for income tax purposes. Currently the above blanket exemption is unavailable for remittances above Rs 5 Million per person in a tax year.

1.32. THIN CAPITALIZATION

The legislation concerning thin capitalization has been introduced in the Pakistani tax law to refrain foreign companies from injecting debt instead of equity in their subsidiaries formed in Pakistan more than a certain approvable threshold. The governing section is Section 106 of the ITO. Moreover, thin capitalization rules apply to Foreign Controlled Resident Company (other than bank or financial institution), in which 50% or more of the underlying ownership is held by a non-resident person (either alone or together with an associate), other than a financial institution or banking company.

The acceptable foreign debt-to-equity ratio/threshold of the FCRC is 3:1. If this ratio is exceeded during any time of the year, then the profit on debt paid by the company in that year on the part of the debt exceeding 3:1 ratio will not be allowed as deduction, while computing income of the FCRC. This rule is also applicable to the Pakistan branch of a foreign company.

Thin capitalization is inapplicable, if interest on foreign debt is chargeable to tax under the Ordinance at not less than corporate tax rate.

Section 106A will also come into operation for FCRC (other than bank or insurance company) when/if the deduction claimed of foreign profit on debt is PKR 10 million and above. If profit on debt claimed as a deduction is more than 10 million, effectively 15% of foreign profit on debt payable to non-resident person or associate will be disallowed in computing income of FCRC. It may be noted that the 'higher of' the two amounts, i.e under Section 106 and 106A disallowed will be considered, as per Section 106A (4).

1.33. ADVANCE RULING

The mechanism of Advance Ruling helps bring clarity and certainty to the tax affairs of a non-resident taxpayer. This is regulated by Section 206A of the ITO. Moreover, till 2017, Permanent Establishments were not allowed to seek Advanced Rulings. However, through the Finance Act of 2017, that restriction was removed from the law, and now Permanent Establishments can also seek such Rulings.

The law is silent about the situation where non-resident taxpayers after obtaining the ruling becomes resident, whether ruling be still binding or not? The detailed procedure is on FBR website link:
https://www.fbr.gov.pk/Contents/introduction-procedure-of-advance-ruling/156.

1.34. DIRECT TAX INCENTIVES FOR INVESTORS

1.34.1. Generating Employment

A tax credit equal to 2% of tax for every 50 employees registered during the tax year with Employees Social Security Institutions of Provincial Governments, subject to a maximum credit of 10% of tax payable, will be available to a new manufacturing unit set up between 1st July 2015 and 30th June 2019, by a company incorporated for establishing and operating such manufacturing unit. Such credit is available to a company incorporated between 1st July 2015 and 30th June 2018. The tax credit may be availed for 10 years based on new employments each year.

1.34.2. Tax Credit for Greenfield Industrial Undertaking

Tax credit of 25% of the investment made in plant and machinery will be available to a Greenfield industrial undertaking (incorporated between 30th June 2019 and 30th June 2024) engaged in manufacture of goods or subjection of goods to a process that substantially changes their conditions, or shipbuilding. It may also be noted that the greenfield industrial undertaking will only be allowed to avail this credit if it is not formed by splitting up, or reconstitution of an already existing undertaking or by transfer of machinery, plant or building from an undertaking established in Pakistan prior to commencing the new business and isn't part of an expansion project.

1.34.3. Tax Credit for Other Industrial Undertaking

A tax credit of 25% of the investment in plant and machinery will be available to an industrial undertaking set up by 30th June 2023 and is engaged in manufacture of plant and machinery, equipment and items with dedicated use (not multiple uses) for generation of energy from sources like solar and wind for a period of five years beginning from the date such undertaking is setup.

1.34.4. Tax credit for point of sale machine

Where a company is required to integrate with FBR for the real time reporting of sale, and the company installs the system, a tax credit is given equal to lower of amount invested in machines or Rs 150,000 per machine.

1.34.5. Minimum Tax Regime

The minimum tax regime is also subject to lowered rates to a certain extent in some industries such as 0.75% for poultry breeder, 0.5% for oil refineries, oil marketing companies and motorcycle dealers registered under the Sales Tax Act, 1990, and 0.25% for distributors of pharmaceutical products, petroleum agents/distributors, fast moving consumer goods and cigarettes, rice and flour mills, sugar, cement and edible oil.

1.34.6. Start-Ups

Startup has been defined in Section 2(62A) of the ITO as:

(a) a business of a resident individual, AOP or a company that commenced on or after 1.7.2012 and the person is engaged in or intends to offer technology driven products or services to any sector of the economy provided that the person is registered with and duly certified by the Pakistan Software Export Board (PSEB) and has turnover of less than Rs 100 Million in each of the last five tax years; or

(b) Any business of a person or class of persons, subject to conditions as the (Board with the approval of Federal Minister in-charge) may, by notification in the official Gazette, specify.

Previously, startups were exempt from tax for the tax year in which they were certified by the Pakistan Software Board and the following two tax years. However, now they have been made subject to tax, whilst offering them a tax credit. As per Section 65F of the ITO, a startup will get a 100% tax credit for the tax payable, for the tax year in which it has been certified by the PSEB and the following two tax years.

Section 153, i.e the withholding tax provision is also not applicable to start-ups when they are recipients of a payment, as per Clause 43F of Part III of the Second Schedule to the ITO. However, after the Finance Act 2021, start-ups are subject to minimum tax, due to omission of Clause 11A (xxix) from Part IV of the Second Schedule.

1.34.7. Online Market place

Online Market place means an information technology platform run by e-commerce entity over an electronic network that acts as a facilitator in transactions that occur between a buyer and a seller. The minimum tax rate applicable on the turnover of the person from supplies through running an online market place is specified to be 0.25%.

1.34.8. Educational and Medical

If education or medical expenses are remitted abroad by the individual to non-resident in accordance with the regulations of the SBP, an exemption against withholding tax will be allowed.

1.34.9. Tax Credits for Profit on Behbood Savings Certificates or Pensioners' Benefit Account

The Behbood Certificates are not subject to withholding tax and are subject to tax rate upto 5%% of the income derived. For instance, if an income falls in slabs on which tax rate is higher than 5%%, a tax credit equal to additional tax above 5% will be available.

1.34.10. Tax reduction for woman entrepreneur (s)

A reduction of 25% in tax payable for woman enterprises on profit and gains derived from business chargeable to tax under head "income from business"[45]. A woman enterprise means a startup established on or after first day of July 2021 as sole proprietorship concern owned by a woman or an AOP all of whose members are women or a company whose 100% shareholding is held or owned by women

1.34.11. Advance Tax at Import Stage

[46]A regime for advance tax has also been put into effect decreasing the tax rate for raw materials and machinery listed in part 1 and 2 of twelfth schedule of ITO to 1% and 2% (3.5% for Commercial Importers)[47] respectively. In case of manufacturers covered under rescinded Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011 as it stood on the 28th June, 2019 on import of items covered under the aforementioned S.R.O., the rate shall be 1%. In case of persons importing finished pharmaceutical products that are not manufactured otherwise in Pakistan, as certified by the Drug Regulatory Authority of Pakistan the rate shall be 4%. Furthermore, importers of CKD kits of electric vehicles for small cars /SUVs with 50kwh battery or below & LCVs with 150kwh battery or below shall pay 1%[48].

1.34.12. Exemptions for Mutual Funds/Collective Investment Scheme

Mutual funds are exempt from income tax if not less than 90% of its accounting income of the year, as reduced by accumulated losses and capital gains whether realized or unrealized is distributed by way of cash dividend amongst the unit or certificate holders or shareholders as the case may be.

1.34.13. Coal Plants

Coal plants in Sindh for supply of coal exclusively to power generation projects have been given 100% tax credit from tax. Furthermore, the investors of these companies being IPPs also have their dividend tax reduced to 7.5%.

[45] Inserted vide Finance Act, 2021
[46] Amended vide Finance Act 2020
[47] Inserted vide Finance Act, 2022
[48] Inserted vide Finance Act, 2022

1.34.14. Tax Holiday for Refineries

Tax exemption is available for profits and gains derived by a refinery from:

(a) New deep conversion refinery of at least 100,000 barrels per day for which approval is given by the Federal Government before the 31st day of December, 2021; or

(b) For the purpose of up gradation, modernization or expansion project of any existing refinery which makes undertaking to the Federal Government in writing before the 31st day of December, 2021 in this regard.

The said exemption is available for only those refineries whose products meet the Euro 5 standards, and for a period of 20 years beginning from the date of commercial production in case of new refinery and for 10 years from date of completion of up gradation, modernization or expansion project of existing refinery.

1.34.15. Loan to SME - Tax Reduction

Under the existing regime, all income of banking companies is subject to uniform rate of tax of 39%. It is now provided that 'income' from advances to the following will be subject to reduced rate of 20% for tax years 2020 to 2023:

a) Micro and small enterprises;
b) Low cost housing (10% for Naya Pakistan Housing and Development Authority); and
c) Farm credit.

The above terms are defined as per State Bank of Pakistan's Prudential Regulations. With regard to farm credit and low-cost housing finance, advances would not qualify for the above concessional rate and the same is subject to submission of details of advances along with gross and net margin earned from such advances.

The above concessional rate is available on 'additional advances', which term has been defined as advances in addition to average amount of advances to the above sectors for tax year 2019.
A clause in Second Schedule has been inserted to exempt the above income from Super Tax too for tax years 2020 to 2023.

1.34.16. [49]Builders and Developers - Tax concessions

If a company with single object as a builder or developer is incorporated on or before 31st December 2020, the following benefits are available:

- The tax rate will be fixed tax rate based on area of project
- The Dividend income paid to shareholder out of profits will be exempt from withholding tax on dividend.
- Minimum tax under section 113 of the Ordinance shall not be applicable on turnover of a builder or developer in respect of a project registered under the scheme.
- The profit can be incorporated in Balance Sheet i.e. white money, of company upto 10 times of tax paid.
- The company shall not be liable to withhold tax under Section 153 on payments made to vendors on purchase of building material except cement and steel and on services of plumbing, electrification, shuttering and other similar services provided by individuals or AOP.
- A builder or developer falling under this scheme shall pay advance tax equal to one-fourth of the tax liability for the year as determined under the scheme in four equal installments. Builders and

[49] Amended vide Finance Act 2020

developers opting for the scheme shall only be eligible for availing tax credit for tax collected under section 236A and 236K of the ITO from such builders or developers pursuant to the commencement of the Tax Laws (Amendment) Ordinance, 2020 (I of 2020) i.e. from 17th April, 2020 onwards on the purchase of immoveable property utilized in a project registered under the scheme.

- The scheme provides immunity from the provisions of section 111 of the Ordinance, and no questions will be asked regarding nature and source of funds from investors making capital investment in NEW construction projects in the form of money or land, either as an individual, as an association of persons or a company, subject to the conditions:
  - Such amount invested through crossed banking instrument deposited in the bank account of new company on or before 30th June 2021
  - Land is owned by the company as on 17.04.2020 shall be transferred to such company on or before 30th June 2021.
- In case the actual profits of the company are more than 10 times of the taxes paid, the excess profits will be required to be offered for tax at normal rates (i.e. 29% for companies) under normal tax regime.
- The first purchaser of a building or a unit in the building is not required to explain the source of funds used for purchase from a project registered with FBR under this scheme if the complete payment is made before 30.09.2023 and is made through banking channels.
- In case of a builder, the project shall be treated as complete on the date of completion of the grey structure. Moreover, the roof of the top floor has been laid as per the approved plan. Furthermore, the map approving authority or NESPAK shall certify that the grey structure as per the approved map has been completed by the builder on or before the 30th day of September, 2023.

  (See detailed comments through link https://bit.ly/35HEYhq).

1.34.17. [50] Incentives for non-resident Pakistanis

To promote and encourage investment by non-resident Pakistanis, the State Bank of Pakistan has introduced Roshan Digital Accounts (RDA). Tax incentives for RDAs are briefly mentioned as follows:

Interest income from foreign currency and Pakistan rupee RDAs (Term Deposits) shall be exempt from tax including withholding tax with no requirement to obtain exemption certificate. There are also additional incentives / concessions for Non-Resident Individuals (NRIs) who invest in Government debt securities, Immovable property, listed securities and units of Mutual Funds; and Term deposit and other products of the Bank through Foreign Currency Value Account (FCVA) or a Non-Resident Pakistani Rupee Value Account (NRVA) with authorized banks in Pakistan. These incentives / concessions inter alia included waiver of requirements to obtain National Tax Number and to file tax return in Pakistan if such NR has no income other than income from above referred investments. Moreover, certain tax withholding provisions as well as the provisions of Tenth Schedule (which prescribe for 100% increased tax withholding) are inapplicable to such NRIs operating through FCVA/NRVA.

1.34.18. [51]Incentives for resident individuals on Naya Pakistan Certificates

A reduced tax withholding rate of 10%, which would also constitute full and final discharge of tax liability, is prescribed for interest income earned by such resident citizens of Pakistan who invest in Naya Pakistan Certificates and other Government securities through FVCA, out of foreign assets declared to FBR.

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[50] Inserted vide Finance Act, 2021

[51] Inserted vide Finance Act, 2021

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SALES TAX ON GOODS

2. SALES TAX ON GOODS

Sales tax in Pakistan was a provincial tax at the time of partition. It was being administered in the provinces of Punjab and Sindh as a provincial levy. However, it was declared as a Federal subject in 1948 through the General Sales Tax Act 1948.. Sales Tax was levied at the standard rate of 6% at every stage of sale. Currently, the regulation and imposition of Sales tax on goods is done through the Sales Tax Act 1990 ("**the Act**").

2.1. FEDERAL SALES TAX SALIENT FEATURES

Sales tax is a Value Added Tax (VAT) system. The Federal Sales Tax in Pakistan is an indirect tax on the consumption of goods by the public-at-large, that is collectable from the whole supply chain i.e. importers, manufacturers, wholesalers (including dealers and distributors) and retailers with certain exceptions. Therefore, the Federal sales tax in Pakistan is a multi-stage tax payable on the value of:

- Taxable supplies by a registered person in respect of any taxable activity carried on by him;
- Goods imported into Pakistan; and

The Sales tax normally utilizes a system of tax credit (called input tax adjustment) to place the ultimate and real burden of tax on the final consumer and to relieve the intermediaries from any tax burden.

2.2. RETAILERS

Under the new procedures, retailers have been segregated into 2 categories:

1. Retailers who are subject to tax under the normal tax regime. These are called Tier 1 and include:
    - National or international chains
    - Retailers operating in air-conditioned malls
    - Retailer who has a credit and debit card machine
    - Retailers whose cumulative electricity bill exceeds [52]Rs. 1,200,000 for a 12-month period
    - Wholesaler-cum-retailer who engages in bulk import of goods and supply of consumer goods on wholesale basis to retailers as well as on a retail basis to the general body of the consumers.
    - A retailer who has acquired point of sale for accepting payment through debit or credit cards from banking companies or any other digital payment service provider authorized by State Bank of Pakistan.

    These retailers will be charged tax under regular procedures of law. This means sales tax is required to be charged at 18% with the relevant input adjustment.

2. Retailers other than Tier-1 retailers are not required to be registered and they shall pay sales tax with their monthly electricity bill as under:
    - 5% of the monthly electricity bill where the said monthly bill does not exceed Rs 20,000; and
    - 7.5% of the monthly electricity bill where the monthly bill exceeds Rs 20,000.

    The above sales tax is the final discharge of their sales tax liability and they are not allowed to claim input tax adjustment. Monthly sales tax return is not required to be filed and they are not subject to audit[53].

2.3. TAX RATE

2.3.1. Standard Rate

Sales tax is applied at the rate of 18%.

[52] Inserted vide Finance Act, 2021
[53] Inserted vide (Second Amendment) Ordinance, 2022

2.3.2. Further Tax

Further tax at [54][4%] shall also be charged when the goods are supplied to unregistered persons. It means that the tax rate is 18% + 4% on supplies of goods to unregistered persons. However, further tax shall not be charged in the following cases:

1. Electrical energy supplied to domestic and agricultural consumers.
2. Natural gas supplied to domestic consumers and CNG stations.
3. Motor spirit, diesel oil, jet fuel, kerosene oil and fuel oil.
4. Goods sold by retailers to the end consumers.
5. Supply of goods directly to the end consumers including food and beverages fertilizers and vehicle.
6. Items falling in the Third schedule to the Sales Tax Act, 1190.
7. Second hand worn Clothing and other worn articles failing under PCT heading 6309.0000.
8. Fertilizers.
9. Supplies by steel melters, re-rollers and ship breakers operating under Chapter XI of Sales Tax Special Procedure Rules, 2007.
10. Supplies covered under the Fifth Schedule to the Sale Tax Act, 1990.
11. Supplies of foam or spring mattresses and other foam products for household use.
12. Supplies made to Government, semi-government, and statutory regulatory bodies.
13. Supplies of white crystalline sugar (PCT heading 1701.9910 and 1701.9920).
14. Supplies by steel sector.
    Supplies by edible oil sector.

Further tax shall not become part of output tax, which means that further tax is payable to the FBR as a bottom-line figure. It should, however, be noted that sales through factory outlets means sales to end users and therefore further tax is not chargeable. Likewise, sales to employees, educational institutions, hospitals government department and so on will not be subject to further tax being end users.

2.3.3. Specified Rates

The FBR with the approval of the Federal Minister in charge has power to fix a lower or higher rate on specified items. Examples of lower rate of sales tax is petroleum products through notifications issued by the FBR from time to time.

The 8th schedule specified imports or supply of certain goods on which sales tax is chargeable at specified rates subject to certain conditions. A few examples are:

- 12.5% on locally manufactured or assembled motor cars of cylinder capacity upto 850cc.
- 8.5% on locally manufactured hybrid electric vehicles of upto 1800cc (12.75% for 1801 to 2500cc)
- 5% on Personal computers and Laptop computers, notebooks whether or not incorporating multimedia kit, if imported in CBU condition.
- Supply of locally manufactured articles of jewelry or parts of precious metals or of metal clad with precious metal 3%
- 12.5% on Electric vehicles in CBU conditions of 50kwh battery or below
- 1 % on EV transport buses of 25 or more seats in CBU condition 1%
- Manufacture/import of substances registered under the Drugs Act, 1976 1%
- 5% on DAP subject to condition that no refund of excessive input tax shall be admissible.

2.3.4. Fixed Rates Based on Capacity/Quantity

The FBR has the authority to levy and collect sales tax on fixed basis or on the basis of capacity of plant in lieu of sales tax on the basis of value of supply of goods (may also be called as capacity tax).

[54] Rate amended from 3% to 4% vide Finance Act, 2023

The 9th Schedule specifies imports or supply of certain goods on which sales tax is charged on fixed basis. Fixed sales tax has been imposed under 9th Schedule as under:

- RS. 250 on on activation of SIM card by a Cellular Mobile Operator("CMO") [55]upto 30th June 2020
- On mobile phones including smart phones and satellite phones ranging from Rs.[56]130 to Rs. 9,270 (25% of value in few cases)
- Fixed sales tax under 9th Schedule shall be paid by the CMO, importer or manufacturer, as the case may be, and the purchaser is not entitled to claim input tax of such fixed sales tax paid by him. The CMO is not entitled to claim any input tax against fixed sales tax charged by it from its customers.

The 10th Schedule specifies fixed tax on bricks on the basis of location, ranging from Rs. 7,500 to 12,500. The rates on cement or concrete blocks has been specified in range of Rs. 3 to Rs. 10 per piece, and in case of paver the rate is Rs. 2 per Sq. ft.

2.4. SALE TAX ON FIVE EXPORT-ORIENTED ITEMS AND OTHERS

Sales Tax on five export sectors i.e. Textile, carpets, leather, sports, and surgical goods on local supplies is under normal tax regime @ 18% which was previously covered under SRO 1125 dated 31.12.2011. The facility of supply of zero-rated electricity, gas, diesel oil, furnace oil and coal to registered manufacturers has also been withdrawn. However, if supplied goods are finished fabric, and locally manufactured finished articles of textile and textile made-ups and leather and artificial leather from retail outlets as are integrated with FBR's computerized system for real time reporting subject to the condition that they have maintained 4% value addition during the last six months the tax rate will be [57]15% instead of 18%[entry no. 66, 8th Schedule].

2.5. THIRD SCHEDULE ITEMS - SALES TAX TO BE CHARGED ON RETAIL PRICE

Sales tax is charged by a manufacturer at 18% (or at the rate as specified under the 8th Schedule) in respect of goods falling under Third schedule of the Act on the recommended retail price fixed by the manufacturer or importer, which shall be legibly printed on the label etc. along with the amount of sales tax. After charging such sales tax by a manufacturer or importer, the same amount of sales tax will be charged by the wholesaler of finished goods and retailer from their customers.

2.6. WHO IS LIABLE TO PAY SALES TAX?

Liability to pay the sales tax to the tax department shall be of the **person**:

- Making the supply, in the case of supply of goods (it means that the purchaser who pays sales tax, does not pay sales tax to FBR, instead he pays sales tax to the supplier and the supplier pays sales tax to FBR after making his input adjustment).
- Importing the goods, in the case of goods imported into Pakistan; and

However, FBR with the approval of the Federal Minister-in-charge may specify the goods in respect of which liability to pay sales tax to FBR shall be of the person receiving the supply [i.e. the Reverse charge mechanism].

The **Cottage Industry** is not required to register and pay sales tax. Cottage industry is defined under the Act by Section 2(5AB) as a manufacturer who does not have an industrial gas or electricity connection, is located in residential area and whose annual taxable turnover during the last 12 months ending any tax period does not exceed Rs [58]8 million and does not have a total labour force of more than ten workers.

For online market places facilitating sale of 3rd party goods the liability to withhold 1% tax on gross value of supplies, shall be on the operator of such market place. [59]

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[55] Amended through Finance Act, 2021
[56] Amended through Finance Act, 2020
[57] Rate amended from 12% to 15% through Finance Act, 2023
[58] Amended through Finance Act, 2022
[59] Inserted through Finance Act, 2022

2.7. SALES TAX RETURNS

Under Pakistani law, the standard operating procedure has been to file monthly tax returns by the 18th of the month.

Standard Procedure	Monthly Returns	18th of every month
Private or Public Limited Company (in addition to Point 1)	Annual Return	By 30th September

2.8. GST EXEMPTIONS AND INCENTIVES

2.8.1. Zero Rated Supplies

Zero rated supplies which are chargeable to sales tax, but at a zero rate. This means they are not exempt. The difference between the two is that under a zero-rated supply, the supplier can credit/adjust the input tax they have paid in respect of that good or service. Exports to any country are zero rated supplies. This covers a wide variety of goods and services. Some examples are supply to diplomats, diplomatic missions and duty-free shops, stationery, and bicycle industries. Refund on zero rated supplies because of input tax will be made in 72 hours in new Fully Automated Sales Tax eRefund (FASTER). A few important examples of zero-rated supplies mentioned in the Fifth Schedule to the Sales Tax Act, 1990 ("STA") are:

- Supply to diplomatic mission and privileged persons
- Supply of raw materials and components for further manufacture of goods in export processing zone
- Local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions.";
- Milk and Fat filled milk[60]
- Petroleum crude oil[61]

2.8.2. Exempt Supplies

Exempt supplies are supplies which fall outside the purview of sales tax and therefore not subject to sales tax. Important exempt items listed under Sixth Schedule are:

- Live animals and live poultry
- Agricultural produce of Pakistan not subject to any further manufacture
- Holy Quran, complete or in parts, with or without translation; Quranic Verses recorded on any analogue or digital media; other Holy books.
- Goods imported by diplomats, diplomatic missions or privileged person
- Import of machinery and materials for EPZ subject to conditions
- Goods imported temporarily for subsequent exports subject to conditions
- Goods produced in and exported from Pakistan which are subsequently imported in Pakistan within one year of their export, subject to conditions
- Supply of fixed assets otherwise than stock in trade against which input tax adjustment is not available e.g. resale of car, furniture, or office equipment being a depreciable asset
- Locally manufactured laptops, computers, notebooks whether or not incorporating multimedia kit and personal computers

[60] Inserted vide Finance Act, 2022
[61] Inserted vide Finance (Supplementary) Act, 2022

- Machinery imported for setting up of a Special Economic Zone (SEZ) as prescribed in the SEZ Act, 2012
- Newsprint and books but excluding brochures, leaflets and directories
- Photovoltaic cells whether or not assembled in modules or made up into panels
- Fertilizers excluding DAP
- Oil cakes and other solid residues
- Seeds for sowing
- Machinery or equipment imported exclusively for Export Processing Zone
- Edible vegetables 2 [imported from Afghanistan] including roots and tubers, except ware potato and onions, whether fresh, frozen or otherwise preserved (e.g. in cold storage) but excluding those bottled or canned.
- Raw hides and skins
- All types of breads, nans and chapattis
- Prepared food / foodstuff supplied by Restaurants and caterers.

2.8.3. Input Tax Adjustment

Pakistani tax law restricts admissibility of input tax with respect to

- Goods and services not related to taxable supplies;
- Commodities acquired for personal or non-business use;
- Goods used in immovable property;
- Vehicles, their parts, their electrical appliances, furniture, furnishings, office equipment other than goods for sale or resale.

2.8.4. Restriction on input tax

A registered person shall not be allowed to adjust input tax in excess of 90% of the output tax for a particular tax period. Therefore, in case of lower profit margin he is required to pay 10% of his output tax to FBR.

It means that if his input tax during a tax period exceeds his output tax as a result of loss or overbuying (closing stock), he is not entitled to get refund instead he will pay 10% of his output tax to FBR. Moreover, input tax disallowed due to this restriction shall be carried forward to the next period and shall be treated as input tax of that period.

However, input tax on the acquisition of fixed assets or capital goods, if any, is claimable in the same tax period and the said restriction of 90% is not applicable in this case.

[62]Furthermore, input tax allowed in the case of locally manufactured electric vehicles, subject to a reduced rate of tax under the Eighth Schedule, shall be limited to the extent of amount of output tax and no refund or carry forward of excess input tax shall be allowed.

[63]FBR has power to increase the limit from 90% to 95% in any particular case. FBR has specified the following cases where the limit is 95%:

- All Tier-1 retailers who have integrated all their point of sales (POS) with the FBR
- Wholesalers of yarn.
- Automobiles manufacturing companies which are listed on PSX till December 2021.

[62] Amended through Finance Act, 2020
[63] Through SRO 1190 dated 2.10.2019

[64]In case a Tier-1 retailer does not integrate his retail outlet in the manner as prescribed under sub-section (9A) of section 3, during a tax period or part thereof, the adjustable input tax for whole of that tax period shall be reduced by [65]60%.

- **Exceptions:**

This restriction of 90% is not applicable in the following cases i.e. they can adjust input tax from output tax without any restriction:

1. Oil marketing companies, petroleum refineries and Pakistan Steel Mills
2. Fertilizers manufacturers
3. Distributors
4. Commercial importers provided the value of imports subjected to 3% value addition as per Twelfth Schedule, exceed 50% of value of all taxable purchases, including imports, in a tax period.
5. Persons making zero rated supplies provided value of such supplies exceeds 50% of value of all taxable supplies during a tax period.
6. Telecommunication services
7. Registered persons other than manufacturers, making supplies of items covered under the third schedule to the Sales Tax Act, 1990 on which sales tax has been paid by manufacturers or importer on retail price, provided that value of such supplies exceeds 80% of value of all taxable supplies in a tax period.
8. [66]CNG dealers provided the value of natural gas on which sales tax is charged on the basis of value notified by FBR exceeds 50% of all taxable supplies.
9. Petroleum dealers of licensed oil marketing companies.

[64] Amended by Finance Act, 2019
[65] Amended by Finance Act, 2021
[66] Through SRO 1190 dated 2.10.2019

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SALES TAX ON SERVICES

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3. SALES TAX ON SERVICES

The provincial sales tax is a tax levied by the provinces on services provided, as opposed to the sales tax levied by the Federal Government which is taxed on goods. The Provincial sales tax is based on the idea of self-assessment, self-compliance and self-reporting by the taxpayer themselves with the revenue authorities having the ability to conduct an audit as they see fit. The taxpayer is himself responsible to issue tax invoices, assess his tax liabilities, file sales tax returns, make tax payments, keep proper records and accounts of his taxable transactions and comply with other legal obligations. The tax schemes do not cause double taxation generally as agreements are reached on the relevant areas by the provincial and federal authorities.

Place of Provision of Services Rules, 2023 have also been notified by all the provinces and Islamabad Capital Authority. The summary of the said rules is as under:

Sr. No.	Service	Deemed place of business

1	Advertisement	• If broadcast is made through:
		  o Satellites- Location of the beaming station;
		  o Terrestrial signals- location of the first broadcast station;
		• If advertisement is made on:
		  o TV Channels (having landing rights in Pakistan)- Location of person having PEMRA license;
		  o Internet Protocol TC- Licensing zone specified in PEMRA License;
		  o Cable TV / other distribution service- Location of the area covering assigned to the person holding PEMRA license for Cable TV or TV for other distribution service;
		  o Closed-Circuit TV- location of the Closed-Circuit TV system;
		  o website/webpage/internet- location of the person owning/ managing such website/webpage/internet;
		  o radio broadcast through:
		    ▪ satellite- location of the broadcast station up linking the advertisement content); or
		    ▪ terrestrial signals- location of the first broadcast station.
		  o Still media including billboards, sign boards, digital boards, poles etc.- location of such still media;
		  o Cinema screens and through aerial banner towing or smoke writing- location of the cinema house and the jurisdiction in which the aerial advertising is performed;
		Exception:
		-Where the advertisement is booked in any place in Sindh for broadcasting on channels beamed / uplinked from a place outside Pakistan, the services shall be deemed to have been provided in Sindh irrespective of whether or not the channel has PEMRA's landing rights permission in Pakistan.
		
		-Where advertisement is booked at any place in Sindh for placing on the web/ internet of persons not resident in Pakistan- location of the person booking such advertisement for such non-resident owner of the web/internet.

2	Advertising agents	Location of the place of business where the advertisement is booked.
3	Insurance and reinsurance	In case of: • Life and health insurance services (whether for an individual / group of individuals)- Location of the office / branch of the insurance company providing the insurance service to the individual / person acquiring the services of group insurance. • Insurance of immovable property- location of the immovable property; • Insurance of movable property- location of the movable property where it is registered by the registration authority; • Insurance of movable property other than ones requiring registration- location of such movable property at the time of insurance; • Marine insurance of goods- Port of embarkation or dis-embarkation in Pakistan; • Reinsurance services- location of the office or branch of the persons providing the reinsurance services in Pakistan; • Reinsurance services by a non-resident reinsurance company in Pakistan- location of the resident insurance company receiving or procuring such reinsurance services.
4	Insurance agents and insurance brokers	• Services by insurance agents- location of the office or branch paying amount of commission to the respective agents; • Services by insurance brokers- location of the person paying the remuneration, commission / fee to insurance broker; However, if he receives these outside Pakistan, the location of the insurance broker in Pakistan.
5	Franchise services and intellectual property services	• By a person whether resident in Pakistan or otherwise- Location of the resident person receiving or procuring such services; -Where tax on franchise / intellectual property services by a resident person is not levied in a Province or area in which such services are provided-location of resident person providing/ rendering such service.
6	Transportation or carriage of goods	• If through pipeline/ conduit- shall be the place of the origin and destination of such service in a manner that the amount of tax involved is shared equally by the provinces in which the transportation originated and in which such transportation terminated. • If within the same province- Province itself; • Origins from an area / Province where tax is not levied and terminates where it is taxable, or vice versa, then location shall be the place where it is taxable. • Services provided or rendered by persons other than companies in relation to transportation of goods by road- Booking office of the person transporting the goods. -Road transportation of petroleum oils- Provisions of the Sindh Sales Tax Special Procedure (Transportation or Carriage of Petroleum Oils through Oil Tankers) Rules, 2018.

		- Where rate of tax leviable in the Province in which transportation originated is different than the rate of tax leviable in the Province in which the transportation is terminated, the invoice shall clearly indicate the amount of tax payable to the respective Provinces on the basis of respective rates of tax on 50% of the value of that inter-province transportation service.
7	Electric power transmission	• Electric power transmission services- Origin and destination of transmission in a manner that the amount of tax involved is shared equally by the Provinces in which the transmission originated and in which such transmission is terminated; • If origination and termination is in the same province then the same province shall be the Province itself; • If originates from a province where tax is levied and terminates where no tax is levied and vice versa, the place shall be the province where the tax is levied. Where rate of tax leviable in the Province in which transmission originated is different than the rate of tax leviable in the Province in which the transmission is terminated, the invoice shall clearly indicate the amount of tax payable to the respective Provinces on the basis of respective rates of tax on 50% of the value of that inter-province transmission service.

It was also directed that where a service is provided to more than one province, the service provider shall claim attributable input tax in the same proportion as attributable to the amount of declared taxable value of service.
There are indeed some differences between the provincial tax schemes but generally they are quite similar with only minor adjustment(s). All provincial sales tax are governed by the Acts passed by the respective Provincial assemblies and by Statutory Regulatory Orders. There is also a withholding tax that is present in provincial sales tax. Among the more interesting aspects of tax law is the point at which the tax is liable. There are 2 major points in provincial tax law where taxable event arises. These can be called the point of destination and point of origin. A point of destination is where the service being taxed is finished. For example, if a courier is delivering a letter from Sindh to a city in Punjab, where the letter is received is where the service has concurred and that is where the tax is applicable. A point of origin is where the service has arisen. Taking the same example as earlier, if a courier is delivering a letter from Sindh to a city in Baluchistan, the service will be taxed in Sindh.

This table which scheme is applicable where:

Revenue Authority	Scheme Type
Punjab Revenue Authority	Both
KPK Revenue Authority	Both(But more emphasis on point of Destination through Section 4)
Baluchistan Revenue Authority	Both
Sindh Revenue Board	Both
Islamabad Capital Territory (FBR)	Point of destination

All the provincial sales tax Acts have their own sales tax rates and usually a penalty on withholding tax for non-registered parties.

Tax Authority	Sales Tax Rate for Active	Sales Tax Rate for Non-Active	Withholding Tax Rate for Active	Withholding Tax Rate for Non-Active
Punjab Revenue Authority	16%	16%	0%	16%
Sindh Revenue Board	13%	13%	20% of prevailing rate of tax	13%
KPK Revenue Authority	15%	15%	20% of prevailing rate of tax	13%
Baluchistan Revenue Authority	15%	15%	20% of prevailing rate of tax	15%
Islamabad Capital Territory	15%	15%	0%	15%

3.1. REVERSE CHARGE:

If a taxable service is provided to a resident person by a non-resident person in the course of an economic activity, including the commencement or termination of activity, the liability to pay the tax shall be on the person receiving the service.

3.2. EXPORT OF SERVICES

Generally, export of services is exempt from charging of sales tax, however, some provincial authorities are currently collecting sales tax on the exports of all categories of services, except those relating to information technology and chartered accountancy etc. which are exempted.

3.3. NEGATIVE LIST/ TAXABLE SERVICES

Currently there is no negative list of taxable services as only the services which are enlisted in Second Schedules of the Provincial sales tax Acts, are chargeable to tax.

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FEDERAL EXCISE DUTY

4. FEDERAL EXCISE DUTY

Sections 3 of the Federal Excise Act provides that all goods and services are subject to FED at a general rate of 15%, except those specified in the First Schedule, on which FED shall be charged on specific rates as per the First Schedule. However, Section 16 provides that all goods and services are exempt except goods and services specified in the First Schedule. This means the FED is applicable only on goods and services specified in the First Schedule, whereas sales tax is chargeable on all goods unless specifically exempt.

4.1. SALIENT FEATURES

- The FED is not taxable on services which are already taxable under provincial sales tax except
  - carriage of passengers by air within or outside Pakistan at fixed rates
  - inland carriage of goods
  - services provided by port and terminal operators
  - chartered flight
- Goods which are manufactured in the non-tariff areas including Azad Jammu and Kashmir and brought to the tariff areas shall be leviable for duty. Examples are vegetable ghee and cigars and cigarettes.
- Goods which are imported irrespective of their final destination in Territories of Pakistan including non-tariff areas shall be charged FED.
- FED on the goods shall be charged on either of the following basis depending on the category of goods:
  - Ad valorem
  - Retail price
  - weight or quantity
  - measurement
  - Units
  - Charges, bill of lading and premium
  - Production capacity, machinery, undertakings establishment or installation
  - on fixed basis on any goods or services

4.2. ADJUSTMENT OF FED

Adjustment of duty is allowed on excisable goods used as direct input for further manufacture of such goods liable for FED provided that the registered person has a proof

- In the form of purchase invoice, goods declaration or any other lawful document issued in his own name;
- That he has paid the price of goods inclusive of FED through banking channels including online payment; and
- That he has received the price of goods sold by him inclusive of FED through banking channels including online payment.

It should be noted that input tax adjustment is only available to

- A Manufacturer;
- In respect of goods used as direct input for manufacture or production of excisable goods only.

4.3. FEDERAL EXCISE DUTY INCENTIVES

- Zero rate of duty is allowed on the goods
  - Exported out of Pakistan;
  - Specified by the Federal Government.
- Pakistan's Federal Board of Revenue may, by notification and subject to such conditions and rates as may be prescribed, allow drawback of duty paid on goods used for the manufacture of goods
  - Manufactured in and exported outside Pakistan

- Shipped as provisions or stores for consumption in board of a ship or aircraft proceeding to a destination outside Pakistan

- Adjustment of FED will be available to zero-rate excisable goods.

Moreover, the FBR may prohibit and restrict payment of duty drawback, refund or adjustment of FED in respect of export of goods or any specified goods to any specified foreign country.

CUSTOMS DUTY

5. CUSTOMS DUTY

The Customs Act 1969 even though, amended many times is still the primary source for dealing with matters pertaining to customs duty of Pakistan. Customs duty is levied on goods being imported in fro Pakistan; goods brought from any foreign country to any Customs station; and goods bought in from bonded warehouse of one custom station to another. The Federal Government has the power to decide whether any goods can be exempt. The said Act generally levies custom duties at rates prescribed under the Customs Act 1969, as amended from time to time vide the Finance Acts, or any other law in force at the time which deals with imports and exports.

5.1. SALIENT FEATURES

- Pakistan uses the Harmonized System to classify goods. Customs duties are levied on ad-valorem basis under the First Schedule of Customs Act, 1969, at duty rates specified in Pakistan Custom Tariff which is divided in 99 Chapters. The rate of duty ranges from 0% to 100%.
- The custom value of imported goods is the transaction value, that is the price actually paid or payable for the goods when sold for export to Pakistan, plus; cost of transport (excluding inland freight after importation, of the imported goods to the Port, Airport or place of importation), loading, unloading, handling charges associated with the transport of the imported goods to the Port, Airport or place of importation and cost of insurance.
- To extend benefits of reduced rates of duty on import of raw material to support local industries, the goods specified under Fifth Schedule of Customs Act, 1969 are chargeable to reduce rates of duties subject to such conditions, limitations and restrictions mentioned in the said Schedule.
- The Federal Government is empowered u/s 18(5) of Customs Act, 1969, to impose additional customs duty on imported goods specified in First Schedule through a notification in official gazette. The additional customs duty should not exceed 35% of the goods value.
- To make short term adjustments in imports to create favorable balance of payment, the Federal government is empowered u/s 18(3) of Customs Act, 1969, to impose regulatory duty on all or any of the imported or exported goods through a Notification in official Gazette subject to limitations and restrictions. The regulatory duty on various items ranges from 0% to 100%. The regulatory duty should not exceed 100% of the goods value, as specified under Section 25-1B or Section 25A.
- Pakistan does not levy an export duty.
- Where goods are imported with a view to exporting them later, the Chief Customs Authority has the power to exempt them from duty subject to preconditions as under the rules.
- Where goods are imported with the purpose of being used in production, manufacture, and repair or refitting, the *Chief* Customs Authority with the permission of the Federal Government and subject to such terms and conditions as it sees fit to impose, can exempt goods from duty, and authorize repayment in full or in half of duty already paid.
- Where customs duty has already been paid off on imported goods and they are subsequently exported, seven-eighths of such duties shall be repaid as drawback subject to the fact that goods are identified by an officer of Customs not below rank of Assistant Collector of Customs at same Customs Station through which goods had been imported and goods are entered for export within 2 years of date of their importation as shown by records of Customs House or if such time is extended by Central Board of Revenue or Collector of Customs, the same shall not be extended three years beyond importation of such goods.

CORPORATE LAWS

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6. CORPORATE LAWS

6.1. COMPANIES REGULATORY REQUIREMENTS

Business activities may be carried out through a company, modaraba, branch, partnership or sole proprietorship. Companies incorporated in Pakistan and branches or liaison / representative offices of foreign companies are regulated by the Companies Act, 2017 (“**CA”**), and Rules framed thereunder, administered by Securities and Exchange Commission of Pakistan (SECP).

6.1.1. Forms of Companies

The CA mentions the following types of companies:

- **Company limited by shares**

The personal liability of shareholders is limited to the amount (if any) unpaid on their shares. Effectively, the shareholder's liability does not exceed the amount committed, when taking up the shares in the company.

- **Company limited by guarantee**

In this type of company, the memorandum binds each member to contribute to the assets of the company in the event of its being wound up while he is a member, or within one year afterwards, for payment of the debts and liabilities of the company contracted before he ceases to be a member, and of the costs, charges and expenses of winding up, and for adjustment of the rights of the contributories among themselves, such amount as may be required, not exceeding a specified amount.

- **Unlimited company**
  - The law also allows formation of company with unlimited liability of its members.
  - From a practical perspective, the limited liability company with share capital would be the type of company contemplated by a non-resident interested in investing in Pakistan.
  - A company incorporated in Pakistan, may either be a "Public Company” or a "Private Company”. A public company can also be a listed company.

Companies are also required to get themselves registered under the tax laws and obtain a National Tax Number (NTN).

- **Private Company**

A private company can be easily formed by a minimum of two members (one for a single member company) and may commence its business immediately after its incorporation. A private company, through its Articles of Association (AoA):

  - Restricts its members to transfer shares
  - Limits the number of its members to fifty
  - Prohibits any invitation to the public to subscribe for its shares or debentures.

- **Single-Member Company**

An individual is entitled to obtain corporate status by forming a single member company and avail privileges of limiting the liability. The introduction of the concept of a single member company has facilitated sole proprietorships to obtain corporate status, giving them the privilege to limit the liability of their proprietors.

All the shares are vested with single member; however, he / she is required to nominate an individual,who will become nominee director in case of death of the single member

Single-Member Company is required to write “SMC” in addition to Private Limited with its name.

- **Limited Liability Partnership**

Limited liability partnership (LLP) is a partnership concern in which some or all partners have limited liabilities. It therefore can display the essentials of partnerships and companies. In an LLP, each partner is not liable for another partner's misconduct or negligence. This is an important difference from the traditional partnership under the Partnership Act 1932, in which each partner has joint (but not several) liability. In an LLP, some or all partners have a form of limited liability similar to that of the shareholders of a company. Unlike company shareholders, the partners have the right to manage the business directly. In contrast, company shareholders must elect a board of directors under the Companies Act, 2017.

Limited Liability Partnership (LLP) is also such a structure which is regulated by the Securities & Exchange Commission of Pakistan. The reason for introducing this business structure was to bridge the gap between small organizational units such as sole proprietorships and partnerships, which are most of the times unregistered, and limited liability companies that are governed by the Companies Act, 2017.

Limited liability partnerships are distinct from limited partnerships in many countries, which may allow all LLP partners to have limited liability, while a limited partnership may require at least one unlimited partner and allow others to assume the role of a passive and limited liability investor. As a result, in these countries, the LLP is more suited for businesses in which all investors wish to take an active role in management.

- **Public Company**

A public company can be formed by three members or more. It is entitled to commence business after obtaining a Commencement of Business Certificate from the Registrar of Companies.

A public company does not have restrictions with regard to maximum number of members and transferability of the shares. A public limited company should have a minimum of three members. Public companies have the option to get their securities listed on a stock exchange.

A company cannot be listed, unless it has made a public issue which is subscribed by at least 500 members. However, this is applicable for listing of shares. For listing of securities other than shares, minimum number of members is three.

A listed company may buy back its own shares, subject to conditions specified in the CA.

Key differences between a public company and private company are highlighted below:

Particulars	Private Company		Public Company	
	Single member	Other private	Unlisted-	Listed
Minimum number of members (shareholders)	1	2	3	7
Maximum number of members (shareholders)	1	50	Unlimited	Unlimited
Minimum number of directors	1	2	3	7
Limitations for share transfer	Restricted	Restricted	Allowed	Allowed

6.2. ADDITIONAL CONSIDERATIONS FOR FOREIGN COMPANIES

Foreign companies incorporated outside Pakistan can invest in Pakistan and operate as body corporate subject to approval of Board of Investment (BOI) and requirement of CA and SECP regulations as above. The table below provides guidance in this regard.

Policy Parameters	Manufacturing Sector	Agriculture	Infrastructure and Social	Services including IT and 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%
Customs duty on import of Plant Machinery and Equipment	5-10%	0%	5%	0%
Tax relief (Initial Depreciation Allowance, % of Plant, Machinery and Equipment cost)	25%	25%		
Royalty and Technical Fee	No restriction for payment of royalty and technical fee.	Allowed as per guidelines - Initial lump-sum up to $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

** Only for CAF (Corporate Agriculture Farming)

(Source: BOI)

6.2.1. Remittance of dividend

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

6.2.2. Royalty and technical fee

- **Manufacturing sector**

The SBP has laid down certain conditions for remittance of Royalty and Technical Fee by the manufacturing sector to facilitate the execution of agreements for transfer of technology. The local firm would designate any of the Authorized Dealers (Banks) in foreign exchange in Pakistan, through whom payments will be made.

- **Non-manufacturing sector**

Payment of royalty, franchise / technical fee by the non-manufacturing sector opened for foreign direct investment like International Food Franchises is permissible, subject to the maximum limit of USD 100,000 as the initial lump sum payment, irrespective of number of outlets, and maximum 5% of net sales.

6.2.3. Repatriable foreign currency loans by foreign controlled companies for working Capital

Foreign controlled companies (i.e. branches of foreign companies and companies incorporated in Pakistan with 50% or more foreign shareholding, or 50% or more directors of foreign nationality) are allowed to contract foreign currency loans from banks / financial institutions abroad or from their HO or from other overseas branches / associates abroad for meeting their working capital requirements, subject to the conditions that the repayment period should not exceed twelve months and the interest should not exceed 1% over LIBOR. Such loans can however be rolled over for further periods not exceeding 12 months each (branches of foreign companies are not allowed to pay interest on such loans).

6.2.4. Lending to foreign controlled companies for capital expenditure

Foreign controlled companies engaged in manufacturing are allowed to obtain Rupee loans for meeting capital expenditure requirement from banks, development financial institutions and other financial institutions or by issuing Participation Term Certificates, etc. However, other foreign controlled companies require special permission to obtain medium and long-term Rupee loans.

6.2.5. Loans against guarantees of non-residents

Authorized Dealers have general permission under the Foreign Exchange Regulations to grant Rupee loans to their clients (including foreign controlled companies) against guarantees of non-residents / guarantees received from banks functioning abroad subject to compliance with the Prudential Regulations of SBP.

6.3. FOREIGN NATIONALS AS DIRECTORS

The company's law in Pakistan does not bar foreign nationals to become directors in Pakistani companies. A foreigner or a non-resident Pakistani may become an executive or a non-executive / independent director of Pakistani companies whether public or private subject to clearance from Ministry of Interior

Required Documents for Foreign Director:

There are certain things that should be kept in mind before proceeding with registration of company with foreign directors.

1. The first thing required to register the company with foreign directors is the clear scanned copies of their passports.
2. The second thing required is their personal profile. Personal profile is same like resume whereby all the history of a foreign person is written so that it can be assessed that whether he has the required capabilities to run the organization or not.
3. The last thing is an affidavit whereby it is stated by the foreign director that if he is not security cleared by the Interior Ministry of Pakistan all his shares will be subsequently transferred to some other person. For any person that is not National of Pakistan and wants to operate a business in Pakistan that person need security clearance from Interior Ministry of Pakistan. Such security clearance is directly sought by the Securities and Exchange Commission of Pakistan once the documents for company registration are submitted.

The following documents are required to be filed with the SECP/registrar concerned:

1. Copy of passport, in case of foreigner, of each subscriber and witness to the memorandum and article of association,
2. Memorandum and articles of association - four printed copies of Memorandum and Articles of Association in case of offline submission and one copy for online submission, duly signed by each subscriber in the presence of one witness (witness is not required in case of online submission). In order to facilitate the general public, the standardized specimen of Memorandum of Association of various sectors has been provided on the Commission's Website.
3. Form – 1 Declaration of applicant for compliance
4. Form – 21 Notice of situation of registered office of the company
5. Form – 29 Particulars of first directors of the company
6. Form – 45 Particulars of Ultimate Beneficial Owner
7. Registration/filing fee Original paid challan evidencing the payment of fee as prescribed in Table – II, in any of the authorized branches of MCB Bank Limited.

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FOREIGN EXCHANGE LAWS

7. FOREIGN EXCHANGE LAWS

7.1. FOREIGN EXCHANGE REGULATIONS

Foreign exchange dealings in Pakistan are regulated under the Foreign Exchange Regulation Act, 1947. Foreign currencies are made available to persons / companies doing business in Pakistan for all purposes under rules which have been clearly defined by SBP. Foreign investment in Pakistan enjoys full protection and repatriation facilities.

Ministry of Finance has tightened regulations for non-filer Pakistanis having foreign currency accounts in the country. The Finance Ministry issued Foreign Currency Account Rules, 2020 which have been enforced from October 9, 2020. The rules governing the foreign currency account of individual noted that a foreign currency account of an individual may be credited with the remittance received from abroad through banking channel except;

- Payment of goods exported from Pakistan;
- Payment for services rendered in or from Pakistan;
- Proceeds of securities issued or sold to non-resident;
- Any foreign exchange borrowed from abroad under any general or special permission of the State Bank of Pakistan; provided that the SBP may issue any general or special permission for credit the account.

Therefore, individuals having foreign currency accounts in Pakistan now cannot credit remittance received on account of payment of goods exported from Pakistan; payment for services rendered in or from Pakistan; proceeds of securities issued of sold to non-resident and any foreign exchange borrowed from abroad. Under the new regulations, a foreign currency account shall not be credited with any foreign exchange purchased from an authorized dealer, exchange company or money changer except as allowed by the SBP through general or special permission under any law.

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.

The important foreign exchange regulations pertaining to foreign investment are covered briefly as below.

7.2. POSSESSION OF FOREIGN CURRENCY

There is no restriction on residents and non-residents on bringing in and holding foreign currency. However, there is a ceiling of USD 10,000 on taking foreign currency out of Pakistan.

7.3. FOREIGN CURRENCY ACCOUNTS (FCA)

Branches of Foreign Firms and Companies and individuals are allowed to maintain foreign currency accounts with banks in Pakistan, subject to certain conditions specified in the Foreign Exchange Manual.

7.4. ROSHAN DIGITAL ACCOUNT AND DISINVESTMENT WITHOUT SBP APPROVAL

The SBP took initiative to boost the injections of investments from Overseas Pakistanis in the Pakistan's Economy with effect from 10 September 2020. The initiative was launched in collaboration with major commercial banks present in Pakistan. The main purpose for taking the initiative was to synchronize and integrate Non-Resident Pakistani's (hereinafter as "NRPs") with Pakistan's Banking and payments system.

The main highlight of the scheme is that the NRPs will be able to open an account in Pakistan without the need of Physical Presence in Pakistan or any embassy or consulate. Through this scheme, the Overseas Pakistanis are able to invest in stock market as well as real state funds from outside Pakistan without the need of Physical presence, from wherever they live. The investors can also invest in the Naya Pakistan Certificates issued by the

Government of Pakistan. Funds in the accounts opened by the NRPs will be fully repatriable and can be remitted back without any prior approval from SBP vide the "Roshan Digital Account".

Opening of a Roshan Digital Account requires basic set of information and documents. SBP and the designated commercial banks are committed to provide a world-class user experience into proactively resolving any problems the NRPs may encounter during the roll-out of the initiative. The NRPs will be provided dedicated customer support and monitoring system established by the SBP and designated commercial banks.

In context of the above, as per the previous mechanism, the designated banks required prior approval from SBP for remittance of disinvestments proceeds above market value, for listed securities and, above breakup value for unlisted securities. This requirement presented various constraints for investors. However, under this new / current mechanism, companies in Pakistan can conveniently remit disinvestments proceeds to their foreign shareholders without prior approval from the SBP.

In addition to the above, the bank designated by the company has now been delegated the authority to remit the entire disinvestment proceeds to Non-resident shareholders prior to which they would be required to submit some documents without the involvement of the SBP. The number of required documents would depend on the size of the transaction.

In case of disinvestment proceeds not exceeding the market value / break-up value, the required documents would include:

- Copy of Share Purchase Agreement,
- broker's memo in case of quoted shares/break-up value certificate of a QCR rated practicing Chartered Accountant in case of unlisted shares,
- Latest audited financials of the company,
- Signed M-Form,
- In case the transaction is between related parties an undertaking from the buyer that the same has been concluded at an arms-length basis.

In case of disinvestment exceeding the market value / break-up value, the required documents would include:

- Detailed valuation/ transaction due diligence by the buyer showing basis, methodology and key valuation metrics used for valuation.
- In case the total remittance of disinvestment proceeds exceeds US Dollar 50 million (or equivalent in other currencies) during a span of six months, the applicant shall submit an independent review of the buyer's valuation, from QCR rated practicing chartered accountant that shall be assessed by the designated bank without needing to send to the SBP.

The main purpose of these initiatives by the SBP is to increase the investor's confidence and to facilitate the start-ups of local companies by attracting more foreign investment for their business.

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LAWS FOR THE FACILITATION OF FOREIGN INVESTMENTS

8. LAWS FOR THE FACILITATION OF FOREIGN INVESTMENTS

8.1. SPECIAL INVESTMENT FACILITATION COUNCIL ("SIFC")

An amendment has been made in The Board of Investment (Amendment) Act, 2023 ("BOI Act"), wherein, establishment of Special Investment Facilitation Council ("SIFC") has been provided as under:

The SIFC shall be established by the Federal Government ("FG") through an official notification and shall consist of a Secretary (who will also serve as a Principal Accounting Officer), other members appointed by the FG, and the President of the SIFC shall be the PM of Pakistan. The President of SIFC shall have the authority to invite or co-opt any person as a member if necessary.

The SIFC shall take all necessary measures to create, facilitate, encourage and promote investment opportunities and business ventures in Pakistan by facilitating investment and privatization in various sectors, including but not limited to the following: (the following shall be referred to as "Relevant fields" in upcoming paragraphs)

1. Defense;
2. Agriculture;
3. infrastructure development;
4. strategic initiatives;
5. logistics;
6. minerals;
7. information technology;
8. telecommunication; and
9. energy.

It is pertinent to mention that the FG is also authorized to designate additional areas, sectors, industries, or projects as "Relevant Fields" through an official gazette notification. Furthermore, the Provincial Government ("PG") or any authorized entity on its behalf may recommend and refer specific sectors, industries, or projects allowing provinces to participate in investment facilitation.

Function of the SIFC

1. To serve as single window for multi-domain cooperation in the Relevant Fields with Gulf Cooperation Council (GCC) countries and other countries to facilitate investment and create an enabling policy environment;
2. To recommend approvals, execute commercial transactions, and enter into arrangements and agreements with local and foreign investors;
3. To engage in commercial transactions with governmental and corporate entities to achieve the objectives of the SICF;
4. To develop a long-term roadmap for growth, development, and investment in the Relevant Field with a focus on fast-track initiatives;
5. To raise awareness about Pakistan's potential in the Relevant Field;
6. To improve ease of doing business by facilitating timely decision-making, avoiding duplication of effort, and expediting investment and project implementation;
7. To monitor investment programs and projects at all stages and ensure prompt implementation through inter-agency and inter-provincial coordination;
8. To review investment promotion plans, establish institutional arrangements, and create transparent and simplified procedures and guidelines for investment promotion;
9. To evaluate and process all investment proposals and projects received from investors;

10. To appoint commissions, expert bodies, and consultants to study aspects related to attracting investment in all sectors;
11. To encourage deregulation and implementation of measures to remove unnecessary obstacles to create an enabling environment for investment;
12. To consider individual investment proposals and specific investment categories that require special treatment and recommend additional incentives or regulatory relaxation where appropriate;
13. To perform any other functions assigned by the FG, furthermore the SIFC has the authority to adopt any procedure or process to carry out its functions, subject to the approval of the FG.

Formation of committee

The SIFC shall form executive and implementation committees who will have specific functions assigned to them by the SIFC. These functions will include facilitating and supervising projects, transactions, arrangements, and agreements under SIFC.

Power to issue directions

The SIFC is also empowered to issue recommendations, advice, or directions to various regulatory bodies, authorities, public sector entities, divisions, and departments of the FG regarding matters of their respective domains. These recommendations, advice, or directions will be binding to the extent not inconsistent with the applicable law.

Furthermore, these powers shall be exercisable only when there are unnecessary delays in obtaining regulatory licenses, certificates, permits, or permissions required for investment operations. These powers shall also be applicable to projects referred by the PG, resultantly SIFC shall exert similar authority over projects recommended by the PG.

Power to relax or exempt from regulatory compliance

The FG has the power to relax or exempt regulatory requirements necessary for the operation of projects, transactions, arrangements, and agreements under the SIFC through an official gazette notification on the recommendations of the SIFC. The FG may also issue specific conditions, limitations, or restrictions in the notification. Furthermore, the FG is also empowered to provide flexibility and facilitate the implementation of investment projects while ensuring compliance with applicable laws.

Immunity

Immunity from any legal proceedings, including suits or prosecutions, seeking damages or any other form of legal action for any act, procedural lapse, or omission made in the exercise or performance of their functions, powers, or duties has been granted to the SIFC, its members, or consultants. Furthermore, no investigating agency, anti-graft agency, law enforcement agency, or court can inquire into or initiate an investigation regarding any commercial transactions, arrangements, unless a clear evidence of bad faith is involved.

Moreover, individuals involved in the SIFC's operations cannot be held personally liable for actions taken in their official capacity as it is protected when acting within the scope of their roles within the SIFC. Any procedural irregularity or lapse in the processes of the SIFC shall not have the power to affect, vitiate, set-aside, annul, or rescind any transaction, arrangement, or agreement and the validity of these commercial actions shall remain intact despite procedural lapses.

Overriding effect

Provisions of the SIFC shall take precedence over any contrary provisions in other laws or legal instruments, regardless of whether those laws were enacted before or after the commencement of the BOI Act. In case of any inconsistency between the provisions of SIFC and any other law, the provisions of SIFC shall prevail and have full effect.

8.2. THE EXPORT IMPORT BANK OF PAKISTAN ACT, 2022

An Export-Import Bank of Pakistan ("Bank") shall be established under the Export-Import Bank of Pakistan Act, 2022 ("EIBPA") and shall be formed for the following purposes:

1. To support, promote and develop international trade, trade investments, export-oriented and import substituting businesses and industries as per the provisions of the EIBPA and the national trade policies and programs of the Federal Government;
2. For the administration, operation and management of such international trade schemes as may be transferred or outsourced to the Bank by the Federal Government or any of its agencies, or the State Bank, as a trustee, agent, or service provider, on prescribed terms and conditions; and
3. Discharge of any function entrusted to it by the Federal Government (by notification) for the advancement of the Bank.

The Bank shall carry on business as necessary or incidental for advancement and within the context of the principles of financial soundness and sustainability. Furthermore, the Bank shall also be entrusted to perform the following:

1. acquire, hold, possess, lease or dispose any interest in any movable and immovable property in or outside Pakistan;
2. provide, on its own or with other financial institutions or insurance providers in or outside Pakistan, trade financing, trade credit insurance and equity participation;
3. provide trade services;
4. restructure, reschedule or write-off any trade financing, trade credit insurance or equity participation by the Bank;
5. acquire or dispose of any interest in an entity, other than foreign agencies, in or outside Pakistan;
6. purchase, hold and sell local and foreign securities;
7. charge, receive and utilize fees, premium, and charges for carrying out its business;
8. take any security interest in any property;
9. obtain reinsurance from any foreign agencies or any insurance companies in or outside Pakistan;
10. draw, buy, sell, accept, negotiate, realize, factor, discount or rediscount negotiable instruments drawn or payable in or outside Pakistan;
11. open, maintain and operate banks accounts in local and foreign currency with financial institutions in and outside Pakistan;
12. enter into and perform all contracts and agreements for conducting any of its business;
13. invest surplus funds of the Bank in accordance with the directions of the Board;
14. carry out insurance agency or brokerage activities;
15. act as an agent for any person or authorize any person to act as agent for the Bank;
16. incorporate subsidiaries and enter into joint ventures in or outside Pakistan with any person or foreign agency to conduct any form of business that can be conducted by the Bank or is incidental to the purpose of the Bank;
17. sell and realize all property, whether movable or immovable, which may come into the possession of the Bank in satisfaction, or part satisfaction of, any of its claims; and
18. purchase, sell and otherwise deal in foreign exchange and derivative transactions.

Sovereign guarantee

For sovereign guarantee, it has been specified by the EIBPA that all liabilities and obligations are guaranteed by the Federal Government in relation to its business, provided that they are within the prescribed limited amount and period (notified by the Federal Government from time to time). It is pertinent to mention that any amount being in excess of or beyond the validity period shall not be payable by the Federal Government. However, the Federal Government shall issue the notification only after consultation with the Board of Directors of the Bank and the State Bank and no fee shall be charged by the Federal Government to the Bank for any sovereign guarantee.

8.3. REGULATION OF MINES AND OILFIELDS AND MINERAL DEVELOPMENT AMENDMENT ACT, 2022

Regulation of mines and oilfields and mineral development (Government Control) Amendment Act, 2022 has been passed, whereby, the Provincial Government ("PG") may in the public interest and in written reasons, may enter into a Negotiated Agreement* (defined below) with any person (natural, judicial, or company whether incorporated in or outside Pakistan) on any such terms and conditions as may be agreed upon by the PG in respect of grant of mineral titles and mineral concessions with an exception to nuclear substances, oilfields and gas fields, Irrespective of any International obligation. Furthermore, the PG has also been empowered to implement the Negotiated Agreement including without limitation by the grant or renewal of any license, lease or other right granted thereunder.

*Negotiated Agreement- means a commercial agreement between one or more persons and the PG, entered into through private negotiation and without public tendering, regarding the grant of a license, lease or other rights to explore, prospect, mine, refine, develop, process, export, exploit and sell any mineral or minerals and do any and all other things in relation to mines and mineral development.

8.4. INTER-GOVERNMENTAL COMMERCIAL TRANSACTIONS ACT, 2022

The Inter-Governmental Commercial Transactions Act, 2022 ("IGCT") shall be applicable all over Pakistan and was constructed to provide legal framework for matters incidental and ancillary to facilitation of inter-governmental economic and commercial transactions.

Definitions:

1. G2G agreement or Inter-governmental framework agreement: Agreement / Memorandum of Understanding ("MOU") entered between the Federal Government ("FG") and the government of a foreign state ("GFS").
2. Commercial agreement: business agreements entered under the G2G agreement;
3. Commercial transaction: sale, purchase, investment, divestment, procurement, licensing, lease, joint ventures, assignments, concessions, services contracts, management contracts/ other mode of business transactions created from the G2G agreement.

The FG may enter into a G2G agreement with the GFS and the agreement shall include broad parameters and mechanisms for execution of the intended commercial transactions. However, a commercial agreement under the G2G agreement shall be negotiated and executed between the nominated entities of the FG while the inter-governmental framework agreement shall be negotiated and executed between the nominated entities of the FG and GFS. Where the entity is nominated by the GFS, that government shall either have shareholding in it or shall have control of the entity.

Constitution of Cabinet Committee

The FG shall constitute a Cabinet Committee through an official gazette notification and who shall facilitate and supervise commercial transactions with powers to pass necessary directions to remove hurdles or difficulties which may be faced for transactions under the IGCT.

The Cabinet Committee shall perform the following functions:

1. Authorize negotiations for a G2G agreement between the FG and the GFS;

2. Constitute a negotiation committee for a G2G agreement / commercial agreement and approve price discovery mechanism;
3. Recommend approval of G2G agreement/ commercial agreement finalized by the negotiation committee; (prior approval of FG is mandatory)
4. Recommend for relaxations, exemptions, exclusions or concessions from regulatory compliance; (prior approval of FG is mandatory)
5. Authorize fast track procurement of services of transaction advisors or consultants; and
6. Take decisions which are necessary for expeditious execution of the commercial transaction.

The Cabinet Committee may also appoint any person as a member or may require attendance of any person by special invitation as appropriate, and all acts, decisions, proceedings of the Cabinet Committee shall be considered valid even if the constitution of the Cabinet Committee was defective, vacant or absent.

Furthermore, the FG, through an official notification and on recommendation of the Cabinet Committee, may relax or exempt from regulatory requirement / operation necessitated by any law for the implementation of the inter-governmental commercial transactions.

Conflict of interest

Where any person acting on behalf of the FG or nominated entity has a direct/indirect/perceived personal interest in any agreement under the IGCT, (s)he shall immediately disclose in writing such interest to the Cabinet Committee and shall not partake in any consideration on that matter unless the Cabinet Committee directs otherwise.

The IGCT also states that, no court shall entertain any application, petition, suit or act taken or purported to be undertaken and neither shall any injunction be provided against such application. Therefore the following shall prevail:

1. No suit, prosecution or any other legal proceedings/actions for anything done, procedural lapses, or omission in exercise of any function, power, duty unless it is beyond reasonable doubt to have been made in bad faith;
2. Unless contrary to any other law in force, an investigating agency, anti-graft agency, law enforcement agency or court shall not inquire into or initiate investigation for any procedural lapse or irregularity by any person in a commercial transaction unless evidence of personal monetary gain with corroborative evidence is provided. It is pertinent to mention that the evidence should have a direct link with undue benefit obtained by or to any party under the agreement.
3. No person shall be sued in his personal capacity for actions taken during his official capacity;
4. Any procedural irregularity or lapse shall not affect, set aside or annul a commercial transaction or commercial agreement.

8.5. FOREIGN INVESTMENT (PROMOTION AND PROTECTION) ACT, 2022

The Foreign Investment (Promotion and Protection) Act, 2022 (“FIPPA”) was promulgated to provide for promotion and protection of certain qualified foreign investments.

Qualified Investments

The specified qualified investments are related to the Reko Diq project in the Province of Balochistan, Pakistan. These investments include all the work carried out by the Reko Diq Mining Company (Private) Limited ("RDMC") (formerly Tethyan Copper Company Pakistan (Private) Limited) and its associated companies since its date of incorporation. It also covers various phases, such as Reko Diq Phase 1 and Reko Diq Phase 2, along with all subsequent phases, inclusive of all infrastructure incidental or ancillary such as:

1. Roads.
2. Pipelines.

3. Power generation facilities.
4. Transmission lines and processing facilities. Covers all lands and orebodies that lie within the mining lease areas granted to RDMC (includes the Tanjeel area).
5. lands covered by the exploration license and surface lease granted under the Implementation Agreement

It is pertinent to mention that the investments are specified in connection with the Antofagasta Exit Deed dated 20 March 2022, involving the Islamic Republic of Pakistan, the Province of Balochistan, and Antofagasta plc, (a company related to the project).

Protection of qualified investments and investment incentives

The FG may notify any additional investments, sectors, industries or projects to be treated as qualified investments on such terms and conditions as deemed in national interest. However, no investment shall be considered as qualified investments if the amount invested (in the form of equity or debt) shall not be less than USD 500 million or equivalent PKR. Moreover, the FG may provide incentives provided that it will be protected benefits necessary as a consequence or in connection with the international commitments or which accrue such substantial benefits to Pakistan. The FG may not amend the First /Second/ Third Schedule to remove a qualified investment or remove a protected benefit.

The rights conferred to investors shall continue to be available to investors to the extent of their qualified investments even if the FIPPA is repealed or amended (unless repealing or amending law expressly provides otherwise). A protected benefit shall continue to be in force for the term as specified in schedules of the FIPPA and shall not be withdrawn, modified, altered, superseded, substituted in any manner that disadvantages any of the qualified investment or any investor that has made a qualified investment.

Furthermore, if the statute on the basis of which a protected benefit is provided itself amends to be a disadvantage to the qualified investment then the unamended statute shall be deemed to continue to be in force unless and until the amended statute expressly provide that it was intended to be with prejudice to the qualified investment or investor or protected benefit.

Furthermore, if a concerned Government commits to an investor through an investment agreement that no Federal, provincial or local charges, cesses, duties, fees, taxes, levies or tolls, including any requirement to make contributions to advance local, social or community matters, other than those agreed will be applicable, then such commitment shall be an actionable obligation. In case of breach, the investor shall be entitled to an appropriate relief against the concerned Government (in the form of damages or injunctive relief, from any court or tribunal of competent jurisdiction). However, no concerned Government may make any such commitment unless a relevant agreement with the investor has been reviewed and approved by the Federal Cabinet or the Cabinet of the PG concerned.

Incentives for investment

The FIPPA introduced the following incentives to investors or qualified investments from the date of the approval those qualified investment and the inclusion of such investments incentives namely:

1. Exemption from or concession on some or all taxes under the Income Tax Ordinance, 2001, including tax on profit and gains, income tax, turnover tax, withholding tax on interest, capital gains tax, income tax on divided and withholding tax on dividend. (duly amended in Section 44A of the ITO).
2. Provisions regarding anti avoidance under the ITO or other legislation may not be applicable to qualified investments;
3. Exemption / concession on sales tax under the Sales Tax Act, 1990 and provincial laws for services;
4. Exemption from Capital Value Tax under the Finance Act, 2022 or any similar tax in nature;

5. Exemption / concession on customs duty on import of all goods to Pakistan including (but not limited to) the following:
    a. Plant;
    b. Equipment;
    c. Machinery;
    d. Components;
    e. Catalysts;
    f. Raw materials,
    g. Spare parts;
    h. Hardware;
    i. Software;
    j. Devices;
    k. Instruments;
    l. Accessories;
    m. Attachments;
    n. building materials;
    o. materials and any other equipment required to perform functions of enterprises located in an export processing zone or related qualified investments, whether or not manufactured locally, for use by an investor;
6. exemption / concession on any export duty or similar duty, cess or levy on export from Pakistan of any products produced in Pakistan or raw materials, equipment, machinery, components, catalysts, spare parts, hardware, software, devices, instruments, accessories and other materials no longer required by an investor in connection with a qualified investment;
7. exemption or concession on Federal excise duty;
8. exemption or concession under any specific directions, guidelines or instructions issued under the Banking Companies Ordinance, 1962 (LVII of 1962), Foreign Exchange Regulations Act, 1947 (VII of 1947) or any similar law or regulation;
9. exemption or concession on property tax;
10. exemption or remission, or concession on, stamp duty and/or registration fees levied by the FG, PG or FG entity;
11. The following shall be deemed to fall under the Export processing zones and shall enjoy all exemptions and concessions granted under the Export Processing Zones Authority Ordinance, 1980 (IV of 1980) and all the rules made, or SROs issued (subject to additional incentives as provided by the concerned government):
    a. project area of a qualified investment;
    b. any bank branches of international or local banking institutions located at the same premises as the offices established in connection with such qualified investment,
12. Royalty rate as negotiated and agreed with the Provincial Government;
13. exemption or concession on application of federal, provincial labour and social welfare laws;
14. exemption or concession on levy of federal, provincial development and /or infrastructure development cess or whatever name it is called;
15. permission to the following to freely bring, hold, retain off-shore, buy, sell, transfer, expatriate and take out foreign currency from or to accounts, in any form without delay and any requirement for foreign exchange declaration (at any stage or to satisfy any other requirement) to meet the requirements of

Investors, lenders, contractors, operators, consultants, insurers, re-insurers, vendors, contract counterparties and advisors in relation to any compensation amounts, payments, loan repayments, equity and return on equity, profits, works, goods and services:

a. Qualified investment; or
b. any qualified investment declared as an export processing zone; and
c. an enterprise or investor operating in an export processing zone for opening, maintaining and operation of foreign currency accounts outside Pakistan or within Pakistan to the extent these accounts are located in an export processing zone.

16. Any qualified investment declared as an export processing zone or an investor operating in an export processing zone, shall have access to non-discriminatory rates for foreign exchange transactions; and
17. exemption or concession on any Federal or provincial or local charges, cesses, duties, fees, levies, taxes or tolls by whatever name called.

Except for the introduction of Section 44A in the Income Tax Ordinance, 2001 and relevant amendment in the Sales Tax Act, 1990, no other amendments were entered into the respective laws referred to above.

Effect On The ITO

Through section 44A of the ITO, all projects, and associated companies falling under qualified investments above shall be exempted from taxes on income (including capital gains), advance tax, withholding taxes, minimum and final taxes for the periods specified in the Second and Third Schedules of the FIPPA or may be subject to tax at the rate or manner specified therein. Furthermore, all investors/associates and shareholders of the qualified investment including third party lenders on account of any loan shall also be **exempt** from taxes and other provisions of the ITO or subject to tax at the rate under the FIPPA. Moreover, the provisions regarding thin capitalization, restriction on deduction of profit on debt payable to associated enterprise, and anti-avoidance of associated companies/ Recharacterization of income and deductions / controlled foreign company shall not be applicable on these persons. As far as the rates of depreciation, initial allowance and pre-commencement expenditure made on the 20th day of March, 2022 are concerned, treatment pertaining to it shall be30 years or as specified in the 3rd Schedule to the FIPPA.

Any agreement entered into and between the investor and one or more concerned governments for qualified investment incentives that are protected benefits shall be deemed to have been entered into the investment agreement created pursuant to the FIPPA.

KEY INSTITUTIONS

Website's Name	Website	Telephone
Board of Investment in Pakistan	www.pakboi.gov.pk	(+92) 51 922 4101
Competition Commission of Pakistan	www.cc.gov.pk	(+92) 51 9100260-3
Ministry of Finance	www.finance.gov.pk	(+92) 13204 / (+92) 03687
Federal Board of Revenue	www.fbr.gov.pk	(+92) 51 111 772 772
NEPRA	www.nepra.org.pk	(+92) 51 2013200
Securities & Exchange Commission of Pakistan	www.secp.gov.pk	(+92) 51 9207091-4
State Bank of Pakistan	www.sbp.org.pk	(+92) 21 111 727 111
Sindh Revenue Board	www.srb.gos.pk	(+92) 21 99217800-09
Punjab Revenue Authority	www.pra.punjab.gov.pk	(+92) 42 99205476-7
Baluchistan Revenue Authority	www.bra.gob.pk	(+92) 81 9204181-2
Khyber Pakhtoon Khuwa Revenue Authority	www.kpra.kp.gov.pk	(091) 9216112
Pakistan Stock Exchange	www.psx.com.pk	(+92) 21 111 001 122

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