SWITZERLAND GLOBAL ENTERPRISE

PAKISTAN
Legal Provisions

Compiled by:

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GENERAL REMARKS:

Pakistan is the 6th most populous country in the world with a population of over 212.8 million and covers an area of 796096 Km^2. It is a semi-industrialized economy comprising of textiles, chemicals, food processing, steel, transport equipment, automobiles, machinery, telecommunications, beverages, construction, clothing, paper products, etc. Pakistan is a member of WTO. Fiscal year of Pakistan runs from July to June. For the fiscal year 2018-19, the GDP at current prices of the country was estimated at approx. USD 284.2 billion. Agriculture, Industry, and Services Sector constitute the major components of the GDP.

Major exports of Pakistan are textile goods, rice, leather goods, sports goods, surgical goods, chemicals, carpets & rugs, etc. while petroleum & petroleum products, machinery, plastics, transportation equipment, edible oils, paper & paperboard, iron & steel, tea etc. are main imports. Usually balance of trade is not in the favour of Pakistan.

Major problems affecting the economy of Pakistan include political unrest, expensive power & energy, imbalance between revenues and expenditures, debts, and trade deficit.

CUSTOMS:

Goods imported into Pakistan are regulated by the Customs department under the Federal Board of Revenue through Customs Act 1969* amended up to December 2019. Goods are subject to customs duty starting from 0% as prescribed in the aforementioned law.

IMPORT AND EXPORT REGULATIONS:

Goods can be imported into and exported from Pakistan via land, air and sea. Pakistan's borders with all neighbouring countries (Afghanistan, China, India & Iran) act as land routes for the trade of goods. International airports in Islamabad, Karachi, Lahore, Peshawar, Sialkot and Quetta offer facilitations to accommodate import and export of goods. Major component of imports and exports takes place via seaports at Karachi, Port Qasim, and Gwadar (semi functional).

Imports and exports of Pakistan are regulated by Import Policy Order 2015-18* and Export Policy Order 2015-18* respectively. These policies prescribe rules and regulations for importing and exporting goods of the country. Goods are allowed and disallowed to import and export in accordance with these orders.

CURRENCY REGULATIONS:

State Bank of Pakistan is the federal/central bank in the country which regulates the issuance and circulation of currency. Currency notes of denomination Rs. 10, 20, 50, 100, 500, 1000, and 5000 while coins in denomination 1, 2, 5 and 10 are issued by the bank. State bank regulates the currency in the country through Foreign Exchange Manual, which stipulates that PKR currency notes amounting up to Rs. 3000 are allowed to export and import while travelling. However, there is no restriction of bringing foreign currency into Pakistan during travel. Foreign exchange amounting up to USD 10,000 or equivalent in other foreign currencies per person/family is allowed to export while travelling.

REGISTRATION PROCEDURE FOR PRODUCTS:

Copyrights, designs, patents, and trademarks of products are registered by the Intellectual Property Organization (IPO) of Pakistan—an autonomous organization of the Federal Government. Relevant forms, fee structure and procedure of registration are available on the website (www.ipo.gov.pk) of IPO.

STANDARDS, TECHNICAL RULES, LABELLING REGULATIONS:

Pakistan Standards and Quality Control Authority in Pakistan, a member of ISO, deals with the standards of products in Pakistan. This authority has the mandate to establish national standards of quality of products in compliance with the international standards. Testing and assessment of the quality of products is conducted by this authority to help local industries in getting certifications by ISO. The labelling regulations are evolving in the country. For the tobacco products like cigarettes, these regulations include showing compulsory warning signs and pictographic illustration of diseases caused by smoking tobacco. For the sectors regulated by the provincial governments such as food sector, the regulations vary in each province and are set by the respective provincial authorities.

TAXES:

Taxation system in Pakistan provides for direct and indirect taxes. Direct taxes are Income Tax while indirect taxes are Sales Tax, and Federal Excise Duty. Income Tax Ordinance, 2001* is the tax code of Pakistan governing the direct taxation. Income from salary, business, property, capital gains, and other sources is taxed in Pakistan at the following rates:

- Income from Salary starting from PKR 400,000 per annum is progressively taxed starting from 0.25%.
- Income of a company other than a banking company is taxed at the rate of 29%.
- A Super Tax is levied on the income of banking companies at the rate of 4%.
- Dividend of a company is taxed at the rate from 7.5% to 15%.
- Income of a company from property is progressively taxed starting from 5%.
- There is a provision of deduction of tax at source of income starting from 1%.

Sales tax is charged at 17% of the value of taxable supplies or services. Federal excise duty is also charged on goods and services produced or manufactured in Pakistan starting from 5%.

COMMERCIAL LAW:

Business activities in Pakistan can be carried out through a company, modarba branch, partnership or sole proprietorship. Companies incorporated in Pakistan and branches/liaison/representative offices of foreign companies are regulated by the Companies Ordinance, 1984, and rules framed there under, administered by Securities & Exchange Commission of Pakistan. Company limited by shares, limited by guarantee, and unlimited company can be established in Pakistan. A company may either be a Public company or a Private Company.

SETTING UP COMPANIES:

Foreign companies can choose between setting up a liaison office, branch office or incorporate a Pakistani company as either its wholly owned subsidiary or joint venture with a Pakistani/Overseas partner. Liaison Office is restricted to undertaking promotional activities, provision of technical assistance, exploring the possibility of joint collaboration and export promotion on behalf of its parent company in Pakistan. Liaison office is strictly restricted from entering into revenue generation activities. It should meet operational expenses through remittances from its parent company. The remittances should be sent through normal banking channel. The permission for opening of liaison office is granted by the Board of Investment (BOI) for an initial period of 1-5 years.

A Branch Office cannot indulge in commercial/trading activities. It can be opened after permission from BOI. A foreign company is required to file prescribed returns/documents with the Registrar of companies in the city where principal office of business is situated within 30 days after obtaining permission from BOI, as per the provisions of Companies Ordinance, 1984.

JOINT VENTURE OPPORTUNITIES:

Joint Venture can be either through an agreement between a foreign and a local company or firm. In case of an agreement, it needs not to be registered under Pakistani law. But if an agreement results into the formation of a firm or a company then it is to be registered under Partnership Act, 1932 and Companies Ordinance, 1984 respectively. There are no special requirements for a foreign firm to enter into joint ventures. Institutions like Board of Investment working for attracting foreign investment in Pakistan offer the sectors of agribusiness, handicrafts, energy, mining & minerals, textiles, publishing & media, fuels, machinery, telecommunications, ceramics, automotive, tourism, chemicals, electronics, forestry products, software, furniture, construction, etc. for joint ventures.

PROMOTION OF INVESTMENT:

Foreign Investment in Pakistan is protected by Foreign Private Investment (Promotion & Protection) Act, 1976 and Protection of Economic Reforms Act, 1992. The government of Pakistan has also established the Board of Investment (www.boi.gov.pk), which acts as a focal point of contact for prospective investors, both domestic and foreign to provide them with all necessary information and assistance in coordinating with other Government Departments/Agencies.

ENTRY CONDITIONS, WORK PERMITS, RESIDENCE PERMITS, LABOUR LAW:

Pakistani mission abroad are authorized to grant five year validity (multiple) visa within 24 hours to businessmen of various countries on Business Visa List (BVL), with the duration of each stay restricted to three months. Every expatriate engaged as an employee by the foreign company operating in Pakistan is required to obtain work visa prior to commencement of employment in Pakistan. There are a number of laws in Pakistan which stipulate the welfare of labour and workers. These laws include Industrial Relations Ordinance, 2008 (deals with formation of workers' union), Employee's Old Age Benefit Act, 1976, Employee's Cost of Living Act, 1973, Workers' Welfare Fund Ordinance, 1971, The Minimum Wages for Unskilled Workers Ordinance, 1969, West Pakistan Shops and Establishment Ordinance, 1969 (deals with worker's leaves, holidays, working hours), Companies Profit Act, 1968, Industrial & Commercial Employment Ordinance, 1968, Provincial Employees' Social Security Ordinance, 1965, Factories Act, 1934, and Workmen's Compensation Act, 1923.

PROCEDURES FOR COLLECTING PAYMENT:

Money from abroad can be transferred into the account in the name of firm/project/individual in Pakistan. Initial investment including profits can be repatriated any time after paying all taxes. Portfolio investment can be repatriated after prior permission of State Bank of Pakistan.

SOURCES OF INFORMATION AND LINKS:

State Bank of Pakistan: www.sbp.org.pk
Federal Board of Revenue: www.fbr.gov.pk
Ministry of Commerce: www.commerce.gov.pk
Board of Investment in Pakistan: www.boi.gov.pk
Intellectual Property Organization in Pakistan: www.ipo.gov.pk
Securities & Exchange Commission of Pakistan: www.secp.gov.pk
Pakistan Standards and Quality Control Authority in Pakistan: www.psqca.com.pk
Directorate General of Immigration & Passports: http://www.dgip.gov.pk

*These laws and policies usually keep on being amended over the year through statutory regulatory orders (SROs) by the respective authorities.

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