PAKISTAN BUSINESS GUIDE (LEGAL PROVISIONS)

GENERAL REMARKS:

After the general elections in 2013, first ever democratic transition of power took place when executive powers were transferred to the elected government of Pakistan Muslim League (Nawaz). It is the 6th most populous country in the world with a population of over 184.35 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 2013, the GDP at current prices of the country was estimated at USD 238.9 billion. Agriculture 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 favor of Pakistan.

Major problems affecting the economy of Pakistan include political unrest, security, shortage of power & energy, inflation and imbalance between revenues and expenditures.

CUSTOMS:

Goods imported into Pakistan are regulated by the Customs department under the Federal Board of Revenue through Customs Act 1969 amended up to June 2013. Goods are subject to customs duty ranging from 0 to 100% 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 neighboring countries (Afghanistan, China, India & Iran) act as land routes for the trade of goods. International airports in Islamabad, Karachi, Lahore Peshawar 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 Gawadar.

Imports and exports of Pakistan are regulated by Import Policy Order 2012-15 and Export Policy Order 2012-15 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. (Hyperlinks to these orders will be given).

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. 5, 10, 20, 50, 100, 500, 1000, and 5000 while coins in denomination 1, 2 and 5 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 there is no restriction of bringing foreign currency into Pakistan. Foreign exchange amounting up to USD 10,000 or equivalent in other foreign currencies is allowed to export.

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. There are no labeling regulations as such except the tobacco products like cigarettes. These regulations include showing compulsory warning signs and pictographic illustration of diseases caused by smoking tobacco.

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 10%.
- Income of a company is taxed at the rate of 35%.
- Dividend of a company is taxed at the rate of 10%.
- Income of a company from property is taxed from 5-10%.
- There is a provision of deduction of tax at source of income varying from 0.5% to 20%.

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 from 10% to 63%.

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 through normal banking channel. The permission for opening of liaison office is granted by the Board of Investment (BOI) for an initial period of 3-5 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.pakboi.gov.pk), which publishes Pakistan Investment Guide every year to provide information to foreign investors. The recent guide for the year 2011 is available on the website.

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.pakboi.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

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