

Guide to do business in

# PAKISTAN

Chandrawat  
& Partners





## ABOUT PAKISTAN

Pakistan is a federal parliamentary republic in South Asia on crossroads of Central Asia and Western Asia. In order to address energy shortages and direct the economy towards a quicker, more sustainable growth, the Pakistani government has launched a program of structural and fiscal reform, with the backing of the IMF. Positive demographic trends also promote potential growth and it serves as a gateway to the economically strong Far Eastern tigers, the financially stable Gulf States, and the energy-rich Central Asian States. Pakistan is a market brimming with opportunity just because of this strategic edge.

## ADVANTAGES

Pakistan has signed Agreements for the Avoidance of Double Taxation ("DTAs") with many countries across the globe, which include countries. The country offers a number of special advantages to foreign investors, as follows:

### Strategically placed

Pakistan is the world's 36th-largest country by overall area, with just under 800,000 square kilometers. Iran, India, China, and Afghanistan are among the nations that border Pakistan. As a result, Pakistan is a favorable site for companies in industries including trade and agriculture. Due to its proximity to China and India, Pakistan plays a significant role in the growth of the area. The ability to access sea lanes is crucial for the commercial sector. Pakistan also includes Karachi Port, which is close to both the Indian Ocean and the Arabian Sea.

### Constant growth in the Gross Domestic Product "(GDP)"

The "(GDP)" of Pakistan's economy has increased significantly. As a result, Pakistan's GDP grew by 5.28% in 2017, making it one of the world's fastest-growing emerging markets. Textiles, apparel, agriculture, and building materials are some of their main economic sectors. Pakistan is also a member of the global Next Eleven (N-Eleven) nations. These nations could end the twenty-first century with the largest economies in the world, claims Goldman Sachs Inc.

### Rapid population growth

More than 200 million people live in Pakistan. The country has the sixth-highest population in the world. In addition, the population of Pakistan is expected to increase quickly and reach 300 million by 2050. The prospects for business and employment that Pakistan's economy will create in the future can be seen through the growth.

### Affordable labor costs

Pakistan's minimum pay for unskilled laborer is about Rs. 15,000 (\$125) per month. These employees are individuals without the necessary technical training and knowledge. Maids, grocery store or fast restaurant employees, and janitors are a few examples. On the other hand, high skilled workers make an average of Rs. 41,100 (\$339) each month. These employees can carry out their tasks because of their particular training and skill set. As an illustration, technicians, electricians, experts, etc. In comparison to other nearby nations like China and India, Pakistan's wages continue to be quite cheap.

### Skilled and youthful staff

With a median age of 22.7, Pakistan has a very young labor force and will benefit from demographic trends in the coming decades. There are many top-tier technical schools in Pakistan, making high-quality education accessible to some Pakistanis, therefore this young workforce also includes elite talent.

### Enhancing the infrastructure

The administration is also aware of how critical it is to develop Pakistan's infrastructure and infrastructure services. This supports both social and economic development. The government of Pakistan is aggressively working to repair infrastructure gaps in order to improve the business environment there. By promoting Public Private Partnerships (PPPs), which involve maintaining and financing various infrastructure sectors including mass urban public transportation, transport and logistics, industrial, and social initiatives, as an illustration.

In Pakistan, the following types of taxes are levied:

## Individual Tax

Income taxes are levied on wages and salaries earned by individuals, income from investments, and other income. The following tax rates apply where income of the individual from salary exceeds 75% of taxable income:

- Upto PKR 600,000 - 0
- PKR 600,000 to 1,200,000 - 2.5%
- PKR 1,200,000 to 2,400,000 - 12.55%
- PKR 2,400,000 to 3,600,000 - 20%
- PKR 3,600,000 to 6,000,000 - 25%
- PKR 6,000,000 to 12,000,000 - 32.5%
- PKR 12,000,000 to 2,955,000 - 35%

## Corporate Tax

Corporate Tax is a direct tax levied on the net income or profit of a corporate entity from their business, foreign or domestic. The division of tax rates are as follows:

- Banking company: 39%
- Public company other than a banking company: 29%
- Any other company: 29%
- Small company: 30%
- In addition to above, super tax is imposed at following rates for tax year 2022 and onwards:
  - Income exceeds PKR 150 million but does not exceed PKR 200 million: 1%
  - Income exceeds PKR 200 million but does not exceed PKR 250 million: 2%
  - Income exceeds PKR 250 million but does not exceed PKR 300 million: 3%
  - Income exceeds PKR 300 million: 4%

The following types of business entities are available in Pakistan:

## Private limited company:

It is one that is privately owned and managed by its shareholders, who are only partially liable for the debts of the business. A private limited business needs to have two shareholders minimum. The general public cannot purchase shares of private limited companies. In Pakistan, a private company is allowed to have as many offices as it wants.

## Public Limited Company

This is a business structure in which the shareholders, who both own and manage the company, are only partially liable for its obligations. There is no maximum number of shareholders, although a public limited company must have at least seven shareholders. The public can buy and sell shares of this sort of firm because it is often listed on a stock exchange. A public company is permitted to have as many locations throughout Pakistan.

## Private Unlimited Company

The law allows incorporating an unlimited private company, which requires a minimum of 2 members. If one registers a private unlimited company, the liability along with other members will be unlimited. The name of the company will include the word "unlimited" as the last words of its name. In case of winding up, all of the members will be liable to pay all the debts of the company.

## Public Unlimited Company

Like a private unlimited company, the law allows incorporation of a public unlimited company, which requires a minimum of 3 members. The liability along with other members will be unlimited. The name of the company will include the word "unlimited" as the last words of its name.

## Single member company

Private limited companies that only have one shareholder are known as single member companies. The number of offices a single-member private limited company may have in Pakistan is unlimited.

## Foreign Company

This is a business that was established outside of Pakistan but conducts operations there. To conduct business in Pakistan, a foreign corporation needs to register with the Securities and Exchange Commission of Pakistan "(SECP)".

### **Sole Proprietorship**

A sole proprietorship is a form of company where the owner and operator is solely accountable for the obligations and liabilities of the company. While the holder of the share capital manages the company, he or she is able to appoint one or more managers to represent the company in its transactions. A one-person company is dissolved upon the death of the holder of its share capital, unless the shares of the heirs are held by one person or the heirs decide to continue the company by restructuring it into another entity.

### **Partnership Firm/Association of Persons "(AOP)"**

The term partnership firm or association of people (AOP) refers to a form of corporate entity made up of two or more people who collaborate to conduct a business activity. These people are typically referred to as Partners. A partnership firm's or AOP's liability is viewed as being equal. As many offices in a district may be owned by a partnership firm.

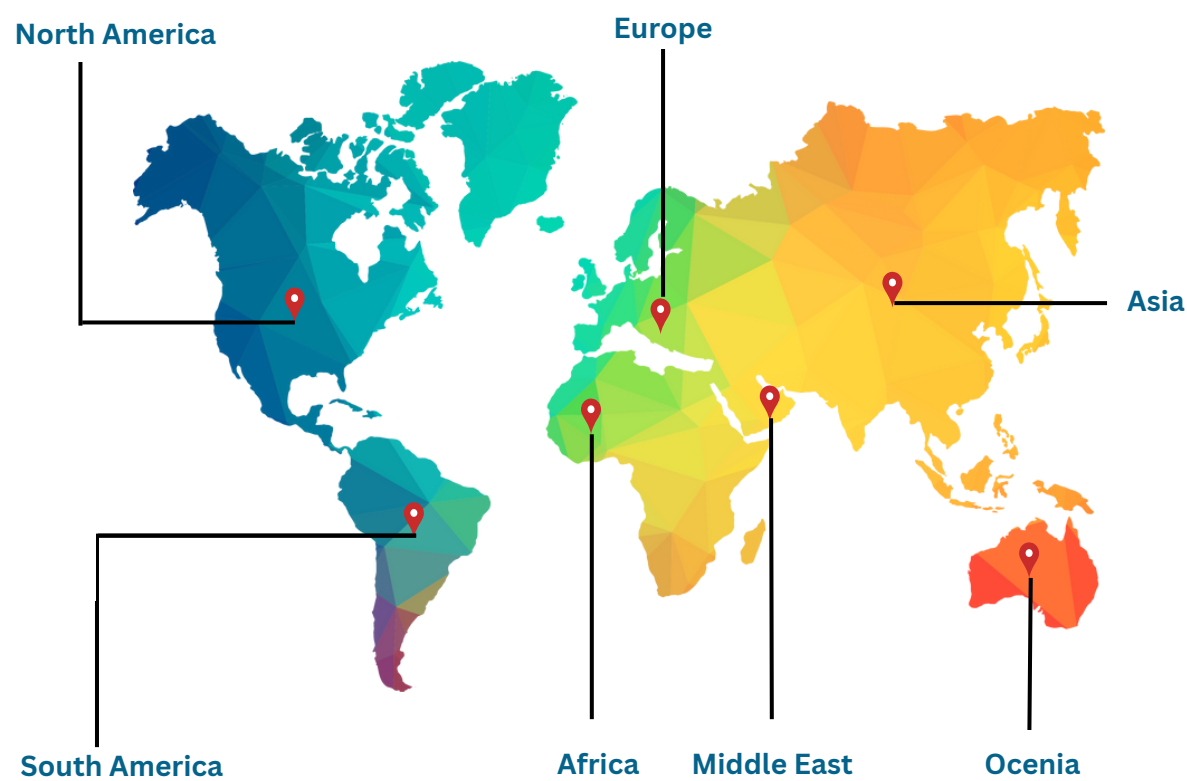
### **Limited Liability Partnership "(LLP)"**

Partners in a limited liability partnership are only liable to the level of their contributions in this type of partnership business. There is no limit to the number of offices a limited liability partnership can have in Pakistan.

### **Not for profit Companies**

In order to undertake public welfare activities, for better recognition and credibility one can incorporate a Not for Profit Company. Under the law, one can incorporate a Not for Profit company as a public company only. Specified sum is given to the company. In case of winding up, the contribution of paying the debts of the company is to a certain limit.

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