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February 2005

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Pakistan Country Guide

A publication of Deloitte Touche Tohmatsu
in co-operation with the Economist Intelligence Unit

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Pakistan
Country Guide

In co-operation with the Economist Intelligence Unit, a leading provider of country, industry and management analysis, tax professionals of the member firms of Deloitte Touche Tohmatsu have created the Deloitte Country Guides, an online and print series designed to provide convenient, searchable information and insights on tax and business issues in key trading nations. Based on research by the Economist Intelligence Unit and Deloitte, and updated at regular intervals, the Guides contain extensive information on investment conditions, tax regimes and regulatory requirements, along with information for executives working abroad. The Guides are supplemented by the Snapshot series, an at-a-glance summary of basic information, including tax rates, for more than 75 countries. Each country is updated twice a year.

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1.0 The investment climate

This report was last updated in February 2005.

Political background

The prime minister heads the government, but the president, General Pervez Musharraf, is the *de facto* head of the executive and leads the National Security Council, which comprises military chiefs, cabinet members and the leader of the opposition. General Musharraf, who took power in 1999 and subsequently held a referendum to validate his role, has been elected as president until 2007.

1.1 Economic structure

Real GDP grew by 6.4% year on year during the first nine months (July-March) of fiscal year 2003/04 (July-June), compared with a target of 5.3% for the whole year and the previous year's rate of 5.1%. The high growth rate during the first nine months came on the back of 13.1% year-on-year growth in manufacturing and 5.2% growth in the services sector, with only agriculture missing its growth target of 4.2% and coming in at 2.6%, below the rate of 4.1% in 2002/03 as a whole.

Agriculture contributed 23.2% of GDP in the first nine months of 2003/04, according to the government. The size of the annual cotton crop, the bulk of it grown in Punjab province, is a crucial barometer of the health of the overall economy, as it determines the availability and cost of the main raw material for the yarn-spinning industry—much of which is concentrated around the southern port city of Karachi—and has a large bearing on the level of exports. Pakistan produced around 11.5m 170-kg bales in 2002/03, after averaging 9.3m bales a year over the previous decade. As more land is being used for cotton production, the government hopes that production will soar to 15m bales a year by 2010. Historically, although Pakistan has been one of the world's largest producers of raw cotton, value added in cotton production was minimal. However, increased quotas for higher-end textile products, largely stemming from Pakistan's support for the US action in Afghanistan and more recently in Iraq, have raised exports of higher-value products.

Comparative economic indicators, 2003

	Pakistan	India	Bangladesh	Sri Lanka	China
GDP (US$ bn)	79.4	658.8	56.7	19.8	1,600.7
GDP per head (US$)	455	549	354	972	1,090
Consumer price inflation (av; %)	2.9	3.8	5.7	6.3	1.2
Current-account balance (US$ bn)	3.6	3.4	0.4	-0.4	45.9
Exports of goods fob (US$ bn)	11.9	59.2	6.9	5.1	438.3
Imports of goods fob (US$ bn)	12.0	76.9	9.3	6.7	393.6

Source: Economist Intelligence Unit.

1.2 Foreign trade

The value of exports increased 10% year on year in fiscal year 2003/04, to US$12.27bn, compared with a target of US$12.1bn, according to data released in the government's 2004/05 trade policy (announced in July 2004). The textile sector accounted for 8% of total exports, and textile exports increased 11.3% compared with the previous year. Other major export categories, such as petroleum products and rice, also registered increases (14.3% and 12.9%, respectively). Textile and clothing exports are governed by the Textile Quota Regime, which will be completely phased out in December 2004.

Imports increased 19% year on year, to US$15.4bn, much higher than the target of US$12.8bn. The government claims this is not a cause for concern, however, because the increase was largely attributable to higher imports of machinery, raw material, metals and other items that should enhance industrial production. Capital goods imports grew 39.8%; imports of raw materials for local manufacture of capital goods grew 37.7%; imports of consumer goods grew 17%;

and imports of raw material for consumer goods grew 15.2%. As a result, the trade deficit increased substantially, to US$3.19bn in 2003/04 from US$1.1bn (the lowest figure recorded in 26 years) in 2002/03. The government is targeting an increase in exports for 2004/05, to US$13.7bn, and a rise in imports to US$16.7bn; this would keep the trade deficit at around US$3bn.

The 2004/05 trade policy, announced in July 2004, introduced a number of new schemes. It stated that the federal government would collaborate with local governments to improve the infrastructure of existing industrial estates, bearing 50% of the cost. The government would also contribute 50% of the cost of common effluent-treatment plants at some of these estates if the local government and stakeholders contributed the rest. The policy allows exporters to import effluent-treatment plants at a 5% duty rate.
The 2003/04 trade policy (announced in July 2003) set up an "upgradation fund" of PRs3.74bn, managed in partnership with the private sector, to finance initiatives for technological improvements; social, environmental and security compliance; export marketing activities; and upgrades of industrial and special export zones.

A key focus of the 2003/04 trade policy was the establishment and strengthening of geographical clusters and zones. For example, the government would establish three "garment cities" (in Karachi, Lahore and Faisalabad), owned and operated by corporate entities with shareholding from the government, multilateral agencies and stakeholders. By August 2004 the government had identified sites for the three cities but had not yet set them up. Once in place, they will receive funding from commercial banks at a rate of 2 percentage points over the six-month Treasury auction rate. The government also intends to set up two special export zones, along similar lines, focused on the textile sector in Karachi and Faisalabad; these were still being planned in mid-2004. It will also organise five industrial clusters: two in Sialkot for sporting goods and surgical goods; one in Karachi for car parts; and one each in Karachi and Lahore for electrical appliances or knitwear. However, these were still not operational in mid-2004. The government will provide the infrastructure, including training facilities, testing facilities, common bonded warehouses (ie customs-cleared warehouses, where imported material or material to be exported is stored, which can be used jointly by various units within a cluster so they need not invest in individual warehouses) and marketing support.

Similar clusters are already operating or being developed in Gujrat for electric fans, in Wazirabad for cutlery, in Lahore for woven garments and in Karachi for leather, gems and jewellery. The 2003/04 trade policy also announced that four agriculture export processing zones and a number of plants for processing specific farm products would be set up. By July 2004 the government reported that the four processing plants and five agriculture zones were being established.

In the 2004/05 policy, the government said it would set up a communications city in Islamabad for information-technology exports. It also implemented the following:

- Restored a subsidy scheme that had lapsed in 2003 that subsidises 50% of the cost of registering the cost of products of pharmaceutical companies abroad for export;
- Announced the establishment of a suppliers' credit fund of US$10m for exports to Africa and US$10m to the Central Asian republics;
- Announced that the government would provide 100% of the cost of consultancy services to private-sector parties to develop accredited quality-control testing facilities of international standards;
- Announced that the government's export development fund (EDF) would pay the first 6% of the interest on loans for the following investments by the private sector: new capital investments in quality testing and research-and-development equipment, investments in greenhouses and refrigeration infrastructure, and investments by existing exporting units to establish effluent-treatment plants;
- Announced that the EDF would consider granting subsidies to all exporters who obtain certain international certificates such as ISO 14000;
- Raised the limit on samples from exporters of non-restricted items to US$25,000 fob per year (from US$10,000); and
- Increased the limit on gift parcels that can be sent through the post or couriers to US$5,000 (from US$1,000).

The Export Promotion Bureau, an agency of the Ministry of Commerce, promotes Pakistan's exports by providing information, sponsoring trade fairs and publishing a directory of manufacturers.

The 2002/03 trade policy removed the requirement that all exporters and importers must register with the Export Promotion Bureau. It also introduced a 25% freight subsidy for the export of new products, defined as those whose annual exports have not exceeded US$5m for the past three years. A similar freight subsidy was announced for exports to markets where Pakistan's total exports had averaged less than US$10m in the previous three years. The lowest rate of presumptive income tax of 0.75% will apply to exports to these markets. The 2004/05 trade policy extended this freight subsidy scheme for another year, until July 2005. It also announced an inland subsidy of 25% of freight costs to exporters of finished granite and marble products.

2.0 Business regulations

2.1 Registration and licensing

The scope and growth of Pakistan's market for foreign technology are difficult to gauge since official statistics on the remittance of technical fees and royalties lump various items together. Rules have now been liberalised, however, and there is no restriction on remitting licensing fees. Licensing presents a cost advantage compared with exporting to Pakistan, since imported items are subject to duties and high freight charges. Licensing is particularly common in the pharmaceutical industry, personal products manufacturing, and car assembly and manufacturing.

Determination of royalties and technical fees has been left open to the local sponsors and their principals. Technology-transfer agreements do not require any approval from the government. A pharmaceutical company must apply to the Ministry of Health to change its principal. Licensing fees may be repatriated only if licensing arrangements are reported to the State Bank of Pakistan (the central bank). No restriction is placed on such agreements, although Pakistani tax authorities may challenge fee percentages. Some limits apply on the remittance of royalties, franchise and technical fees or service charges for projects in non-manufacturing.

2.2 Price controls

In general, the private sector is free to set prices. Provincial and local authorities occasionally set the price of commodities perceived to be in short supply, and the government, in effect, fixes prices on locally manufactured goods granted tariff protection. The government fixes prices, mostly at the ex-factory stage, for certain products of state-owned firms, including cars, petroleum and public utilities. The government extends price support to farmers for certain crops (such as rice, cotton, sugarcane and wheat), and it increases imports to keep prices stable.

The government sets fuel prices, power rates and gas rates, some through government-appointed regulators. The price of liquefied petroleum gas (LPG) was deregulated in September 2000, when the PARCO refinery came online, adding 450 tonnes to the existing supply of 540 tonnes in the market. The government signed an agreement in July 2002 with Pakistan Petroleum (Pakistan's biggest gas producer), allowing it to operate a market-based gas-pricing formula. The agreement replaced the Petroleum Gas Price Agreement of 1982, which used to govern subsidies on gas prices. The government intends to phase out gas subsidies within four years. The Oil and Gas Regulatory Authority will revise gas prices semi-annually until the subsidy is eliminated. The Oil Companies Advisory Committee (OCAC) now determines the prices of some petroleum products. The government deregulated diesel pricing in September 2002, allowing the oil-marketing companies to set their own rates; the OCAC has now stopped determining diesel prices.

Formal price controls for the private sector are in place only for the pharmaceutical industry. The Ministry of Health sets the prices of drugs and medicines, using a system that requires manufacturers to report cost changes. Although drugs have been classified into controlled (essential) and decontrolled categories, the government must approve price hikes for both classes. Since November 1994 drug pricing has been calculated by linking the cost of domestic components of a drug to the consumer price index, and imported components to the rupee exchange rate.

In November 2001 the government approved increases of 3% for the prices of controlled drugs and 4% for decontrolled drugs, on the recommendation of the Ministry of Health. The price hike was lower than the 12% increase that pharmaceutical companies had requested.

2.3 Monopolies and restraint of trade

The Monopolies and Restrictive Trade Practices Ordinance 1970 defines monopolistic power as the ability of one or more sellers in a market to set non-competitive prices or restrict output without losing a substantial share of sales, or the ability to exclude others from the market. A market is considered to be the geographic region in which the production or sale of goods or services takes place. Market sharing and price-fixing are forbidden, as are price-fixing agreements between suppliers and dealers.

Registration with the Monopoly Control Authority is required for several situations representing a concentration of market power: (1) production, distribution, sale or supply of at least one-third of a particular good or service in a province by a single firm; (2) collaboration of two or more firms competing in the same market and collectively providing at least 20% of goods or services in that market; (3) sole distribution or supply by any company and its associates to at least two providers of goods or services within a province; (4) production and distribution by a firm and any associates of at least 20% of a product (at the wholesale or retail level) to a concern fixing minimum resale prices and having the right to distribute the good to more than one company in a province; and (5) firms with assets of at least PRs50m (not owned by a public company) and individuals with majority holdings in such firms. Under Section 5 of the Monopoly Control Act, an enterprise that holds more than a 33% market share is capable of determining the price structure.

2.4 Intellectual property

Pakistan is a signatory to the World Trade Organisation's Agreement on Trade-related Aspects of Intellectual Property (TRIPs). To comply with TRIPs obligations, Pakistan has enacted new laws on copyright, industrial designs, layout of integrated circuits, trademarks and patents. These include the Patent Ordinance 2000 and the Trademarks Ordinance 2000, both issued in December of that year. The government issued the Trademarks Ordinance 2001 in April 2001; it provided, for the first time, for the registration of service marks for eight categories of services. Protection of trademarks has traditionally been inadequate in Pakistan, with rights of prior use not recognised by the Trademarks Registry. Trademark names of many international firms (including Barbie dolls, Shakey's Pizza, Burger King and Maxim's) have been appropriated with impunity.

The Patents Ordinance 2000 offers protection for both products and processes, as well as a 20-year patent term. But protection is not available for the following: a discovery, scientific theory or mathematical method; a literary, dramatic, musical or artistic work or any other creation of purely aesthetic character; a scheme, rule or method for performing a mental act, playing a game or doing business; the presentation of information; animals or plants other than micro-organisms; or for diagnostic, therapeutic and surgical methods for the treatment of humans or other animals.

Copyright protection is governed by the Copyright Ordinance of 1962 (modelled on English law) and its September 2000 amendment, the Copyright (Amendment) Ordinance 2000. The amendment provided for better enforcement, including harsher penalties for infringement and civil search orders without notice to the defendant. Protection is available for the life of the author and 50 years more for literary, dramatic, musical or artistic works. Copyright protection is available for software programs. Civil and criminal remedies are also available. Pakistan is a member of the Universal Copyright Convention.

Although patents, trademarks, copyrights, and industrial designs and models are legally recognised, enforcement of intellectual property laws is improving only slowly. Video outlets renting pirated movies are often raided. In a price-conscious market like Pakistan, piracy has become an accepted fact of life and is common in books, videocassettes, audiocassettes and textile designs. Nearly all software has been pirated. The US Trade Representative cited these violations in April 1998 when Pakistan was placed on its watch list. In February 2003 the International Intellectual Property Alliance (IIPA) recommended that Pakistan be elevated to the special priority watch list (where it remained in April 2004) because of growing piracy, especially of optical discs. The IIPA estimates that the piracy of films, sound recordings, business software applications, entertainment software and books caused losses of US$134m during 2003. CD piracy is particularly rampant. According to the IIPA, Pakistan became one of the world's largest producers of pirated optical media for export in 2001, and it produced an estimated 180m units in 2003. The IIPA estimates that 95% of films and 100% of records and music in Pakistan were pirated in 2003.

Meanwhile, the Business Software Alliance, an industry group, reported Pakistan's software piracy rate to be 83% in 2003, and it noted that companies lost US$16m to software piracy during the year. This compares unfavourably with neighbouring India, where software piracy was reported to be 73% in 2003 (although corporate losses there totalled US$367m).

To enforce laws against piracy, the licensee or the licenser must inform the police or take legal action. Licensers can obtain injunctions and sue infringers, and many disputes are settled through the courts or arbitrators. But recourse to the courts is cumbersome and time consuming.

In July 2002 the government acknowledged that the country's intellectual property rights (IPR) organisations were ineffectual. It said it would set up the Pakistan Intellectual Properties Right Organisation (PIPRO), which would oversee the offices of the trademark registrar, copyright registrar, and the patents and industrial designs registrar, handling all IPR requirements under one roof. But this organisation had not yet been set up as of August 2004, although the government prepared a draft law in September 2003 to lay the groundwork for its establishment. The government also said it would make the necessary legal changes to remove inconsistencies between the provisions of the Pakistan Penal Code and the new Trademarks Ordinance 2001, but had not done so by August 2004.

Intellectual property and the new economy

There was a flurry of legislative activity in this area in 2000/01. The Pakistan Patent Ordinance 2000 and the Trade Marks Ordinance 2001 were issued in December 2000 and April 2001, respectively. The draft Protection of Software Ordinance 2000, protecting and enforcing the rights of software authors and ensuring fair use of software, was published on the web, as an invitation for comments, by the Pakistan Computer Bureau in late 2000. But no further steps have been taken.

2.5 Mergers and acquisitions

Although the government can ask for information on company affairs, the law does not require prior notice of proposed mergers or acquisitions unless these would result in conditions requiring registration with the Monopoly Control Authority (MCA). The MCA has the authority to prevent mergers or acquisitions, or to require divestitures, if it is likely that a merger would create unreasonable monopolistic power or substantially lessen competition. The Securities and Exchange Commission of Pakistan (SECP) also plays a role in mergers as it is expected to protect the interests of minority shareholders. It is more active than the MCA. For example, in April 2002 the Lahore High Court disallowed the merger of three companies of the Kohinoor group, based on an SECP petition. The commission said that although it encouraged mergers as a matter of policy, this particular merger would be against the interests of minority shareholders of one of the companies. The SECP was acting on complaints from small shareholders who could not afford to fight the case on their own. The law makes no distinction between horizontal and vertical mergers.

A law governing takeovers—the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance 2002—was passed in November 2002. The legislation has been widely criticised, particularly because it omits two important areas often included in takeover legislation: it makes no provision for a mandatory offer to all shareholders by an acquirer who acquires a certain percentage shareholding, and it does not require residuary shareholders to sell their shares to an acquirer who controls almost all of the company's shares.

2.6 Accounting standards

Under the IASCF Constitution, the objectives of the International Accounting Standards Board (IASB) are:

- To develop, in the public interest, a single set of high-quality, understandable and enforceable global accounting standards that require high-quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
- To promote the use and rigorous application of those standards; and
- To bring about convergence of national accounting standards and International Accounting Standards to high-quality solutions.

For further details, visit www.iasplus.com.

To access a summary of countries' use of International Financial Reporting Standards, select "Country Use of IFRSs" from Resources on the left-hand side of the page.

3.0 Foreign investment

3.1 Foreign investment incentives and restrictions

Foreign direct investment (FDI) totalled US$949.4m in fiscal year 2003/04, less than the target of US$1bn, but up 20% on the previous year's total of US$789m. (All figures in this section are from the Ministry of Finance.)

Total investment and fixed investment increased from 16.7% and 14.8% of GDP, respectively, in 2002/03 to 18.1% and 16.4% of GDP in 2003/04. Public-sector investment increased to 4.6% of GDP from 3.6%. Private-sector fixed investment increased from 5.2% of GDP in 2002/03 to 7.9% in 2003/04. National savings declined from 20.6% of GDP in 2002/03 to 19.8% in 2003/04; domestic savings increased marginally during the same period from 17.4% of GDP to 17.6%; and foreign savings remained negative at -1.7% of GDP in 2003/04, compared with -3.8% in 2002/03.

Foreign investors are allowed to hold 100% equity in all industrial sectors without prior permission, with the following exceptions: arms and ammunition; high explosives; radioactive substances; and security printing for currency or the mint. The establishment of new units for manufacturing alcohol is banned, except for industrial alcohol. A package of incentives exists to attract foreign investment. The investment policy lists openness, liberal tax concessions and legal protection as key inducements; so far, however, this has attracted few foreign investors. The main investment focus has been on oil and gas, power and information technology, with selective interest in other market segments.

According to the Board of Investment, the top sectors attracting foreign direct investment (FDI) to Pakistan in 2003/04 were financial services (US$242.1m), communications (US$221.9m), oil and gas exploration (US$202.4m), petroleum refining (US$70.9m), trade (US$35.6m), textiles (US$35.4m) and construction (US$32m). The top sources of FDI in 2003/04 were the US (which contributed US$238.4m), Switzerland (US$205.3m) and the UAE (US$134.6m). The UK was also a significant source of investment (US$64.9m).

In January 2001 the government offered incentives for offshore and onshore oil and gas exploration as a part of its Petroleum Policy 2001. The offshore-petroleum package is available to all licence holders for five years. It specifies a reduction of income tax from 50% to 40%; import duties and taxes of 0% for exploration and 3% after the first commercial discovery; and different ratios of government profit-sharing for shallow, deep and ultra-deep zones. The onshore-petroleum package, announced in May 2001, allows gas producers to enter directly into supply contracts with gas distributors, gives producers the option to export gas if they meet domestic demand and provides for a reduction of income tax from 50% to 40%.

The government issued the Pakistan Electronic Media Regulatory Authority (PEMRA) Ordinance 2002 in March 2002. This allows the establishment of television channels in the private sector. However, licences will not be granted to foreigners or to majority foreign-owned or -controlled companies. The ordinance provides for the setting up of PEMRA to regulate the establishment and operation of all broadcast stations, including radio, television and cable television in the country. PEMRA was set up in March 2002.

Priority manufacturing or industrial activities are identified by the following categories: (A) value-added or export industries; (B) high-tech and information-technology industries; (C) priority industries; and (D) agro-based industries. They are entitled to benefits such as varying levels of concessional customs duties or tax relief, depending on the category. Lists of industries in these categories are available at the Board of Investment's website (www.pakboi.gov.pk). Enterprises that export a minimum average 50% of their production in the first ten years are also included in category A.

Incentives broadly include the following:

Income tax holidays. Depending on location, a tax holiday of three to five years may be available for new industries. Ventures planned in the province of Balochistan, Pakistan's poorest state, qualify for the maximum benefit; those in the more affluent state of Punjab would receive less.

Tax credits. For new investments, a first-year allowance (FYA) is available on investments in plant, machinery and equipment (PME). Companies can use this allowance against statutory income in the assessment year and carry forward indefinitely any unused allowance. The FYA is set at 50% of the PME cost for most industries, including service and social-sector companies, but it rises to 75% for category C and D companies as well as for infrastructure and agriculture, and to 90% for category A and B companies. Companies are also allowed an initial depreciation allowance, at 50% of the cost of assets that are wholly and exclusively used for the first time in Pakistan in the year. The June 2003 budget extended the initial allowance to second-hand machinery used for the first time in Pakistan. This initial allowance is in addition to normal depreciation but is not allowed for furniture or road-transport vehicles unless the vehicle is for hire.

Exemption for bonus shares. To encourage investment in publicly listed companies, the 2002/03 budget permanently eliminated the tax on bonus shares.

Miscellaneous. To accelerate the pace of investment, the government abolished the wealth tax from July 2001. As a step towards reducing the multiplicity of taxes, provincial governments have reduced the number of taxes from 29 to about eight.

Under an investment policy announced in mid-2001 and subsequent changes, official approval is not required for new manufacturing investments, except for four restricted activities: the production of arms and ammunition, high explosives, radioactive materials, and currency printing and minting. Foreign investors are allowed up to 100% equity in local projects in manufacturing, development of hotels and tourism services, and agricultural activities (including land reclamation and development; irrigation facilities and water management; and plantations, forestry and horticulture). Full foreign ownership is also permitted in the social sector (including education, technical and vocational training, human-resources development, hospitals, and medical and diagnostic services) and in the infrastructure sector, including the development of industrial zones. Full repatriation of capital, profits and dividends is allowed in all sectors except the agriculture sector.

For corporate agriculture farming, 60% foreign equity is allowed with a minimum investment of US$0.3m.

There is a minimum required investment of US$150,000 in the service, social, agriculture and infrastructure sectors; no minimum is required in other sectors. Pakistan has banned the establishment of new plants for manufacturing alcohol, except for industrial uses.

The government offers maximum incentives to export-oriented industries. Exporters are assured that a refund of at least some of the import duty charged on imports of raw materials for exportable items will be received within 72 hours.

New investors must register their company with the Securities and Exchange Commission of Pakistan (SECP) under the Companies Ordinance of 1984. Investors must also inform the State Bank of Pakistan (SBP), the central bank) in order to remit profits and royalties abroad.

3.2 Exchange controls

Commercial banks are empowered to deal in and remit foreign currency on behalf of the State Bank of Pakistan (SBP), the central bank. The SBP has delegated to authorised dealers (mostly banks) the responsibility for ensuring that transactions made through them meet SBP requirements and for documenting and reporting these transactions. The facility for contracting foreign private loans (which do not involve any guarantee by the Pakistani government) is available to foreign investors to finance the cost of imported plant and machinery required to set up the project. Loan agreements require clearance from the SBP. Foreign-controlled (branch operations, or companies where more than 50% of the equity is held by foreign nationals) manufacturing concerns are allowed unlimited domestic borrowing based on their requirements for working capital. They are expected to meet capital requirements from foreign loans; as an exception, they may take domestic loans from banks and financial institutions. Foreign-controlled semi-manufacturing concerns may borrow up to 75% of paid-up capital, including reserves; non-manufacturing concerns may borrow up to 50% of paid-up capital, including reserves.

The reforms of the early 1990s permitted all resident Pakistanis to maintain foreign-currency accounts (FCAs). These accounts may be funded by foreign exchange in many forms, including foreign-exchange bearer certificates, remittances from abroad, bank drafts and currency. These FCAs may not be fed with export proceeds, borrowed funds or proceeds of securities sold to non-diplomatic residents. FCAs may also be opened by diplomatic missions, diplomatic officers, and international organisations and their expatriate employees, as well as by foreign nationals, whether residing in Pakistan or abroad. Resident Pakistanis may not maintain bank accounts in foreign currencies abroad, except for accounts with a maximum balance of US$1,000 or its equivalent. Even these accounts require SBP permission to be operated from Pakistan, and they may not be opened in India, Israel, Afghanistan or Bangladesh.

From February 2000 the SBP allowed the transfer of funds from FCAs that had been frozen since May 1998.

Exporters may retain in a separate FCA the foreign exchange that they save by paying commissions less than the maximum 10% (raised from 6% in August 2003) of fob value permitted. Exporters may finance promotional publicity, collections of commercial intelligence, market studies and designs/patterns from these funds, without needing the approval of the SBP. In December 2001 the SBP allowed exporters who post growth of at least 10% on the previous year's export performance to retain 50% of the additional proceeds in such FCAs. Software exporters are allowed to retain up to 35% of their export proceeds in such FCAs; so are other service-sector companies, effective September 2001.

Exchange companies operating abroad may open non-resident foreign-currency accounts for handling home remittances.

A number of policies were amended with the introduction of the unified exchange rate in 1999. All current-account transactions were permitted without prior approvals. The SBP eliminated the requirement that 5% of all export proceeds be surrendered to it, and allowed all foreign-exchange (forex) requirements for all approved purposes (such as imports or debt repayments) to be met through purchase of forex from authorised forex dealers at the floating interbank exchange rate. Authorised dealers were no longer required to approach the SBP for the release of forex or to surrender forex to it, and they were allowed to set their own buying and selling rates (although the spread between the two rates must not exceed PRs0.20 (reduced from PRs0.50 in October 2002). Authorised forex dealers were allowed to buy and sell foreign currency freely from other dealers if they remained within permissible daily exposure limits. The SBP was allowed to trade forex in the market on its own account, and it announced that it was getting out of the business of providing forward cover. Authorised dealers may now provide forward cover at market rates. Withdrawals were permitted in rupees from foreign-currency accounts and forex-denominated bonds, such as foreign-currency bearer certificates and US dollar bonds.

SBP approval is needed for the sale of foreign currencies to non-resident branches and correspondent banks against credit balances in their non-resident rupee account. Hence non-resident branches and correspondent banks are advised to fund their non-resident rupee accounts only to the level needed to make payments to beneficiaries in Pakistan.

Pakistan's foreign-exchange position has improved over the past three fiscal years, and the central bank has announced some liberalisations and new norms, as follows:

- In July 2004 the SBP gave authorised dealers general permission to release foreign exchange worth up to US$100,000 for private-sector payments for information technology needs, including international bandwidth, Internet and private line charges, and satellite transponder charges.
- In June 2004 the SBP delegated approval powers to authorised dealers for the remittance of most aircraft lease rentals by airlines incorporated in Pakistan.
- In August 2003 the SBP removed the limits on imports without a letter of credit for end users and industrial users (previously US$5,000 and US$30,000, respectively).
- In June 2003 the SBP gave authorised dealers general permission to grant rupee loans or overdrafts to foreign nationals up to their requirements, subject to normal prudential regulations; previously, such advances of more than two months of the foreign national's salary required SBP permission.
- In March 2003 the SBP allowed shipping companies and airlines with offices or operations in Pakistan to open interest-earning rupee accounts in Pakistan, provided these are used only for local expenses and interest is not remitted abroad.
- In December 2002 the SBP said it would allow the pre-payment of foreign private loans not guaranteed by the government on a case-by-case basis.
- In December 2002 the SBP removed the one-month restriction on forward contracts and allowed importers to cover their third-currency exposure invoiced in a convertible currency; previously only exporters were allowed this facility.
- From April 2002 the SBP said that banks would no longer have to surrender the foreign exchange collected through FE-31 deposits (the only category of forex deposits on which the SBP was still providing forward cover) to the central bank, shifting the forex liability to the banks. The SBP no longer provides forward cover to such deposits, but

authorised dealers may provide it instead. Banks have now reclaimed the forex they had earlier surrendered under these deposits.

- From March 2002 the SBP stopped the sale of special US dollar bonds against payment in dollars; it also stopped the payment of a rupee redemption bonus of 5% on the maturity of three-year special US dollar bonds.
- In February 2002 the SBP allowed shipping companies to open and operate foreign-currency accounts in Pakistan for receipts and payments in foreign exchange. However, cash withdrawals are not allowed from such accounts and all rupee withdrawals must be converted at the interbank rate.
- In February 2002 the SBP allowed authorised dealers to issue foreign-currency travellers' cheques to foreign and Pakistani nationals against forex in cash. In December 2002 the SBP said that travellers' cheques need not be used only for travel purposes.
- In January 2002 the SBP said that foreign-currency deposits mobilised under the FE-25 scheme should not exceed 20% of the local deposits of banks and non-bank companies. This was to be adhered to by July 2002.
- In November 2001 the SBP allowed banks freedom in interbank buying and selling of foreign exchange, removing the requirement that all interbank forex transactions be backed by legal commercial transactions.
- In November 2001 authorised forex dealers were allowed to approve payments exceeding SBP-specified limits for travel, education, medical treatment abroad and other purposes, subject to certain conditions.
- In September 2001 resident local firms were allowed to make direct equity investments in companies and joint ventures abroad on a repatriable basis with prior SBP permission, subject to certain restrictions.

In August 2001 the SBP removed the limits on banks' nostro accounts (ie accounts that a bank holds with a foreign bank), in effect allowing banks to hold foreign currency abroad. Effective March 2nd 2002 the central bank also allowed banks to keep 20% of demand and time liabilities abroad. The previous limit of 15% had been put in place in May 1999 to check capital flight. The relaxation allows banks to use more of their funds abroad. In May 2004 the SBP directed banks to credit their nostro accounts with US dollars against any export they make of other currencies, rather than importing the equivalent number of dollars in cash into the country.

4.0 Choice of business entity

4.1 Principal forms of doing business

Pakistan has both public and private limited-liability companies. The criteria for organising an investment remain unchanged. Foreign entities weighing the choice between public and private limited forms should note that tax rates are lower for public limited companies—although tax rates are being equalised—and the structure could raise visibility locally. For those firms concerned with confidentiality and not planning to borrow or raise equity locally, a private limited structure may be the better option. Transfer of shares in a private company is not restricted. Only public companies may sell shares on the stockmarket.

Requirements of public and private limited companies

Capital. Generally, no minimum. Minimum foreign investment of US$150,000 for the agriculture sector. Capital may be supplied in cash, machinery (used or new), patents, know-how or (in rare cases) raw materials. There are no reserve requirements.

Founders, shareholders. Public: Minimum three founders or shareholders; no nationality restrictions. Private: Minimum one shareholder (maximum 50), excluding employees; no nationality restrictions.

Directors. Public: Minimum three (seven for a listed company; subscribers to memoranda become directors until others are appointed); no nationality requirement. Private: Minimum two.

Management. No permission is required to appoint a foreign national.

Labour. There is no requirement for worker representation in management.

Disclosure. Public listed on stock exchange: Quarterly unaudited income statement and balance sheet must be issued. Annual income statement and balance sheet must be certified by a licensed auditor and filed with the Securities and Exchange Commission of Pakistan (SECP) and tax authorities. Up-to-date books must be kept in the province where the company is registered. Public: Annual income statement and balance sheet must be certified by a licensed auditor and filed with the SECP and tax authorities. Up-to-date books must be kept in the province where the company is registered. Private: Up-to-date books must be kept in the province where the company is registered. Private companies must also file audited accounts with tax authorities.

Taxes and fees on incorporation. Minimum registration fee of PRs2,500 for nominal share capital of up to PRs100,000; PRs500 for each additional PRs100,000 up to PRs5m; and PRs250 for each additional PRs100,000 over that amount; total fees are capped at PRs10m. Different listing fees apply to issues of equity and debt.

Types of shares. Public: Ordinary, non-voting (known as B-class), preference, cumulative preference, redeemable preference and preferred. The last receive dividends only after ordinary shares have received predetermined dividends (for example, half of profits remaining after 10% has been paid to ordinary shareholders). Private: Same, where applicable.

Control. Public: Simple majority normally suffices; annual meeting must be held within four months of the closing of the financial year. Two (ten for a listed public company) shareholders having 25% voting rights at a meeting constitute a quorum. First annual general meeting must be held within 18 months of incorporation and thereafter once every calendar year, but not later than 15 months from the date of the last meeting. Private: Same; two shareholders constitute a quorum.

4.2 Establishing a branch

It is generally advisable to operate in Pakistan through a locally incorporated company rather than through a branch, since branches are subject to many restrictions (for example, they may not bid directly for government tenders). Special provisions that affect companies incorporated outside Pakistan are in Section 450 to 458 of the Companies Ordinance of 1984. For the establishment of a branch or a liaison office of a foreign company in Pakistan, permission from the Board of Investment of Pakistan is required. Within one month of establishing a place of business (such as a branch) in Pakistan, a foreign company must file the following information with the registrar of the relevant province: a copy of the company's charter or constitution; the full address of its registered or principal office; a list of directors, chief executives and secretaries; names and addresses of persons authorised to accept notices on behalf of the company; and the address of the principal place of business within the province. If alterations are subsequently made in any of these particulars, the new details must be submitted within 30 days. Such firms must also file annually with the registrar concerned, in English, their annual accounts of Pakistan operations, their global accounts and a list of Pakistani members and debenture holders. Companies ceasing to have a place of business in Pakistan must notify the registrar 30 days in advance along with publication in two leading newspapers having circulation in the province where the registered office is situated.

4.3 Setting up a company

A company is formed by registering its constitution, byelaws and articles of association with the Company Registration Offices of the Securities and Exchange Commission of Pakistan (SECP), the capital-market regulator. Companies must issue a prospectus for all new public offers of securities, which must be approved by the SECP. Listing fees for companies differ depending on the stock exchange. The Karachi Stock Exchange, for example, asks for an initial listing fee of one-tenth of 1% of the paid-up capital of the firm, subject to a maximum of PRs1.5m for equity listings. (These fees were lowered in July 2004 from 0.143% of the paid-up capital up to a maximum of PRs2.5m.) All listed companies must also pay an annual listing fee every financial year (before September 30th). A fee of PRs15,000 per year is required for companies with paid-up capital of up to PRs50m; PRs30,000 for paid-up capital of PRs50m–200m, and PRs60,000 for capital exceeding PRs200m (lowered from PRs25,000, PRs50,000 and PRs100,000, respectively, in July 2004). The company applying for listing must also pay a service charge of PRs25,000.

5.0 Business taxation

5.1 Overview

Pakistan's tax revenue is about 13% of its GDP, representing a narrow tax base. (Countries with comparable levels of industrial and institutional development collect 18% of GDP in taxes, on average.) Both the IMF and the World Bank have urged the government to increase tax revenue by 1.5 percentage points of GDP annually through tax reforms. Indirect taxes constitute about 65% of total tax revenues. During fiscal year 2003/04 (July 1st–June 30th), revenue collections totalled PRs510.6bn, a 10.9% rise compared with the previous fiscal year.

Tax rates in Pakistan have traditionally been high. The government introduced a gradual tax reduction in 1993/94. Companies that export are entitled to rebates—or sometimes exemption—from taxes. Branches of foreign companies are taxed at the same rate as local companies whether or not their earnings are distributed among shareholders. By June 2001 most of Pakistan's provinces had reduced the number of taxes from 29 to eight.

The government has acknowledged that its tax regime suffers from many problems, including a multiplicity of taxes, cumbersome assessment procedures, inefficiency, delays in resolving disputes, inequities created by exemptions granted to certain groups and corruption. Over the past four and a half years, the government has been implementing a major tax reform programme, focusing on simplifying assessment and collection, using technology in tax assessment, virtually eliminating contact between the taxpayer and the collectors, and reorganising the Central Board of Revenue.

Tax reform is one of the conditions imposed by the IMF against the US$1.25bn Poverty Reduction Growth Facility, which it agreed to extend in December 2001. The government's 2003/04 budget removed 20 tax exemptions. Its 2002/03 budget had removed 55 tax exemptions (one-third of the total number) and also lowered the threshold on income from National Saving Schemes instruments that are subject to a 10% withholding tax to PRs150,000 (from PRs300,000); this applies only to investments made after July 2002.

The 2003/04 budget made no changes to the rates of corporate income tax. In the 2002/03 budget, in line with its aim to broaden the income tax base, simplify taxation and further unify corporate rates, the government announced that tax rates would be progressively reduced by 2 percentage points each year on private companies and 3 percentage points each year on banks, to reach 35% by 2006/07. Thus for 2004/05, the effective rate for public companies remained at 35%, but the rate for private companies is now 39% (compared with 41% in 2003/04). Income tax on banks is now 41% (down from 44% in 2003/04).

A new Income Tax Ordinance 2001 (ITO 01) came into force in July 2002. The new legislation replaces a 1979 ordinance and aims to make tax rates and treatment uniform, reduce dependence on withholding taxes, encourage voluntary compliance, minimise exemptions and ensure effective dispute resolution. In combination with changes announced in the 2002/03 budget, ITO 01 made many changes to Pakistan's tax system.

In July 2002 the Central Board of Revenue established a Large Taxpayer Unit (LTU) in Karachi to facilitate tax payments by such taxpayers. (This covers three categories of taxpayer: banks and insurance companies; non-resident corporate taxpayers; and the largest designated corporate taxpayers. This last category has not specifically been defined by the government.) A second LTU began operating in Lahore in September 2004, and a third is to be established in Islamabad in 2005. The board also set up a Medium Taxpayer Unit (MTU) in Lahore in 2003 and plans to set up MTUs in five other cities during 2004/05.

The national tax number (NTN; formerly the Common Taxpayer Identifier) system was introduced in June 2000 to integrate all federal taxes through a unique identifier number for each taxpayer. The Office of Tax Ombudsman was established to address complaints of aggrieved taxpayers. The fee for appealing to the tax commissioner against an assessment order is PRs1,000 or 10% of the tax levied, whichever is lower; the fee for appeals against an assessment order to the Appellate Tribunal is PRs2,500 or 10% of tax levied, whichever is lower. The previous forum to address grievances, the settlement commission, has been abolished. As a result of a survey and registration exercise begun in 2000, the Central Board of Revenue is now equipped with an extensive database, which should improve its effectiveness in tax assessment.

In June 2000 the government announced that all cases of approved tax refunds would be settled within 90 days. It also discontinued the use of gross profit rates to determine income. The Central Board of Revenue announced at the same time that tax-exemption certificates would be issued within 72 hours to all taxpayers. The government noted in its June 2003 budget that quality exporters would receive sales tax refunds within ten days, down from 40 days previously.

The June 2003 budget introduced for the first time a system of advance rulings by a committee on tax matters for non-residents. The committee's rulings will be binding on the commissioner of income tax.

The present tax structure in Pakistan continues to include the following two major irritants for the corporate sector:

- All companies incorporated in Pakistan that are not otherwise liable for tax are assessed a minimum tax of 0.5% of total turnover. This applies even to those operating under tax holidays and even if the company posts, or carries forward, a loss for the year. To reduce this irritant, in the 2004/05 budget (released in June 2004) the government allowed companies to carry forward the unadjusted amount of this minimum tax for five years for adjustment against future tax liability. In the 2001/02 budget, the government exempted individuals from this tax to promote small and medium-sized enterprises.
- Advance income tax is deducted at different rates on all contract receipts, supplies and imports.

5.2 Taxable income and rates

Pakistani tax laws differentiate between public companies, other companies and banking companies. A company is considered public if it meets one of the following criteria:

- It has at least 50% government ownership.
- Its shares were traded on a recognised Pakistani stock exchange during the tax year and it remains listed at the end of the tax year.
- It is a unit trust whose units are widely available to the public, or any other public trust.
- It is a company in which a foreign government holds shares, or is a foreign company owned by a foreign government (this category was added in the June 2003 budget).

Corporate tax rates for 2004/05 for public companies, private companies and banks are 35%, 39% and 41%, respectively. Preferential rates apply in special industrial zones.

Income tax authorities previously used ambiguities in the tax legislation to impose tax on excess reserves. Since the Income Tax Ordinance 01 (ITO 01) has not made any provisions for such tax, no tax may be levied on excess reserves from the fiscal year commencing July 1st 2002.

Modaraba companies (management companies for exchange-traded certificates, similar to closed ended mutual funds) face a 25% tax rate.

In June 1999 Pakistan introduced a Self-Assessment Scheme (SAS), which let taxpayers assess their own taxes and file a simple return. The ITO 01, which became effective in July 2002, replaced the SAS with a universal SAS, for which most taxpayers are eligible. The universal SAS is a simplified scheme, under which the taxpayers' own estimation of tax liability is accepted as an assessment order. But authorities can prescribe criteria for selection of these returns for audits.

Basic corporate tax rates in Pakistan are as follows:

Tax year	Public company (%)	Private company (%)	Banking company (%)
2004/05	35.0	39.0	41.0

The following is a rough outline of the 2004/05 tax burden on a 50%-foreign-owned, non-banking public or private company in Pakistan that earns PRs10m and distributes PRs1m in dividends:

	Public company (PRs m)	Private company (PRs m)
Taxable income	10.0	10.0
Income tax	3.5	3.9
Net income after taxes	6.5	6.1
Dividends(1)	1.0	1.0
Retained earnings	5.5	5.1
Withholding tax(1)	0.1	0.1
Total tax(2)	3.6	4.0

(1) Assuming a tax of 10%; dividend income is subject to different rates of tax depending on the type of shareholder, and withholding tax may vary under double-tax treaties. (2) Not including contributions to the Workers' Welfare Fund and profit-sharing. An alternative minimum tax based on turnover may apply.

Taxable income defined

Corporate taxable income is defined as gross income minus allowable deductions. Income from foreign sources may be included in taxable income at the foreign-owned firm's discretion. Companies can avoid double taxation with foreign tax credits.

The Income Tax Ordinance 2001 (ITO 01) extended the scope of business income to include income from the hire or lease of immovable property; the fair market value of any benefits or perquisites, whether in money or in kind; management fees derived by a management company, including a *modaraba;* and the technical services fees and royalties of a permanent establishment in Pakistan of a foreign company. It clarified that profit on debt (interest) is liable for tax as business income if the business is primarily engaged in deriving such income. When deducting expenses, a taxpayer must prove that all expenditures were incurred to generate income. The 2002/03 budget prescribed the method of stock valuation at the end of the tax year as the lower of cost or net realisable value, which standardised the different practices that companies had been following.

Normal deductible expenses include the following: rent, royalties, repairs, loan interest, depreciation, some debts, employee fringe benefits up to certain limits, special reserves approved by the government for insurance purposes, training expenses and scientific research. Salaries and wages paid to residents and non-residents are deductible only if advance income tax has been paid. Specific limitations also apply to deductions for entertainment. Dividends are not deductible, but dividends received are taxed separately at a lower rate. Interest paid to non-residents is not deductible unless advance income tax has been deducted from such payment. Special provisions apply for calculating the taxable income of oil, gas and mineral concerns. The 2003/04 budget made deductible lease rentals paid to a bank or financial institution. The same deductions are allowed for branches as for locally incorporated companies.

ITO 01 expressly allows deduction of expenditures incurred prior to the commencement of business at the rate of 20%, including the cost of feasibility studies, construction of prototypes and trial production expenditures.

Losses may be carried forward for six years. Loss carryback is not permitted. The 2003/04 budget allowed industrial undertakings to carry forward losses from years in which they are tax exempt to the years after the exemption expires. The 2004/05 budget allowed subsidiaries of a public and listed holding company to surrender their losses in a tax year (though not carryforward losses) in favour of the holding company if the holding company owns or acquires 75% or more of the subsidiary's capital. A subsidiary can surrender its losses in this way for only three years, and the holding company is permitted to carry forward such a loss for three years.

The 2002/03 budget provided benefits to financial-sector companies to accelerate privatisation and mergers in the sector (under the suggestions of the IMF and the World Bank). In July 2002 it allowed a banking company, which is wholly owned by the government, to carry forward its losses relating to assessment years 1995–2001 for ten years (instead of the previous six years). It also allowed banks and some other financial institutions to deduct any funds put into escrow. These incentives were scheduled to lapse in June 2004, but the 2004/05 budget extended them to 2007 and also extended them to insurance companies.

ITO 01 also introduced new tax provisions related to mergers of one or more banking companies or non-banking financial institutions or insurance companies:

- The losses of the merging company may be carried forward and set off against the business profits of the amalgamated company up to six tax years immediately succeeding the tax year in which the loss was first computed.
- The unabsorbed depreciation of the amalgamating company may be carried forward against the profit of the amalgamated company indefinitely, until the full amount of the depreciation is completely set off.
- The scheme of amalgamation should be approved by the State Bank of Pakistan or by the Securities and Exchange Commission of Pakistan (SECP) on or before June 30th 2006.
- The expenditure incurred by an amalgamated company on legal and financial advisory services and other administrative costs related to planning and implementation of the merger may be deducted from income.

The 2003/04 budget allowed banks a deduction of 3% of consumer loans against their income from consumer banking to create a reserve to set off bad loans in consumer banking. The 2004/05 budget extended this benefit to non-banking finance companies and housing finance companies.

Depreciation

Income Tax Ordinance 2001 (ITO 01) modified depreciation provisions. The declining-balance method is used most often. The normal annual depreciation rate on plant and machinery is 10% on the written-down asset value. General buildings are depreciated at 5%; factories, workshops, cinemas, hotels and hospitals at 10%; and furniture and office equipment at 10%. Computer hardware and similar items, aircraft and aircraft engines have a 30% depreciation rate; motor vehicles and technical or professional books have a 20% rate.

ITO 01 redefined a depreciable asset as any tangible movable property, immovable property or structural improvement to immovable property having a normal useful life exceeding one year, which is used in deriving taxable business income. Depreciation may be claimed for the whole tax year, regardless of whether the asset was used wholly or partly during the year. It also provides that if an asset is disposed of in a tax year, no depreciation in that year will be allowed even for the period that it had been used.

Under previous law, companies were allowed a reinvestment allowance, industrial building allowance and an extra depreciation allowance on buildings for multi-shift workers. ITO 01 consolidated these into a single initial depreciation allowance, at 50% (raised from 40%) of the cost of assets that are wholly and exclusively used for the first time in Pakistan during the year. The June 2003 budget also allowed initial depreciation for second-hand plant and machinery used for the first time in Pakistan. Initial depreciation is not allowed for furniture and road-transport vehicles (unless the vehicle is for hire). Thus two types of depreciation are now allowed: normal depreciation and initial depreciation. Initial depreciation is allowed only in the first year of use of assets and normal depreciation is allowed in subsequent years.

Leasing companies may claim initial and normal depreciation on leased assets. ITO 01 extended the definition of a leasing company to include investment banks, *modarabas,* scheduled banks or development finance institutions. Any income from the hire or lease of tangible properties will be taxed as income from business, and lessors are allowed to claim depreciation of assets as a deductible expense against the rental income of such leased assets. Leasing companies are allowed initial depreciation on leased assets at 50% of the cost of the depreciable assets acquired by them in a tax year.

Revaluation of assets is not allowed. Under previous law, costs of intangibles (including patents, copyrights or other such property) were considered capital in nature and were inadmissible expenditures. But ITO 01 allows deduction of amortisation of such assets with a useful life of one year or more (but not exceeding ten years) if they are used to derive business income in a tax year.

5.3 Capital gains taxation

Immovable property is excluded from the definition of capital assets for the purpose of capital gains calculation, so there is no tax on such sales, unless the assessor proves that the sale of such property is the business of the taxpayer (the gain would then be taxable as business income). Capital gains on other assets are included in regular taxable income. Capital gains on assets held longer than one year are taxed after restricting the capital gains to 75%; thus 25% of capital gains are exempt from tax. There is no adjustment for inflation in the gains. Capital losses are deductible only against capital gains. Gains resulting from mergers are taxable.

The 2002/03 budget included *modaraba* certificates in the definition of capital assets and any public shares or instruments of redeemable capital listed on any stock exchange. *Modarabas* are similar to closed-end mutual funds. The 2004/05 budget extended the tax exemption on capital gains from the sale of shares of listed companies, *modaraba* certificates and Pakistan Telecommunications vouchers to June 2007 (from June 2005). However, it also imposed, for the first time, a capital value tax of 0.01% on the value of share transactions.

Capital gains earned by industrial undertakings in export processing zones are exempt from tax. Capital gains from the sale of shares of a public company set up in a special industrial zone are tax exempt if they are derived in the five years following the date of beginning production.

5.4 Foreign income and tax treaties

Pakistan has numerous bilateral tax treaties. It has also signed limited agreements with Iran, Lebanon and Saudi Arabia concerning air transport and with Greece concerning shipping and air transport.

Various agreements exempt reasonable royalties on the use of patents, trademarks and designs from taxation in Pakistan. This exemption does not apply, however, to management fees, compensation for personal services or profits from mining, which are taxed at the normal corporate tax rates. Some treaties exempt interest paid to the government or central bank of the contracting state, and on foreign loans specially approved by the federal government.

Withholding-tax rates under Pakistan's tax treaties (%)

Country of recipient	Dividends(1)	Interest	Royalties
Austria	10/20	0(2)	20/25
Azerbaijan	10	10	10
Bangladesh	15	1/15	15
Belgium	10/15(2)	0/15	0/15/20
Canada	15/20(2)	0/25	15/20
China	10	0/10	12.5
Denmark	15	0/15	15
Finland	12/15/20	0/10/15	10
France	10/15	0/10	10
Germany	10/15	0/10/20	10
Hungary	15/20	0/15	15
Indonesia	10/15	0/15	15
Ireland	10	0(2)	0
Italy	15/25	0/30	30
Japan	—(3)	0/30	0
Kazakhstan	12.5/15	0/12.5	15
Libya	—(2)	—(2)	—(2)
Malaysia	15/20	0/15	15
Malta	15	0/10	0/10
Mauritius	10	0/10	12.5
Netherlands	10/20	0/10/15/20	5/15
Nigeria	12.5/15	0/152	152
Norway	15	0/10	12
Philippines	15/25	0/15	15/25
Poland	15	0	15/20
Romania	10	0/10	12.5
Singapore	10/12.5/15	0/12.5	10
Korea	10/12.5	0/12.5	10
Sri Lanka	15	0/10	20
Sweden	15(2)	0/15	10
Switzerland	10/20(2)	0/30	0(2)

Withholding-tax rates under Pakistan's tax treaties (%)

Country of recipient	Dividends[1]	Interest	Royalties
Thailand	15/25	0/10/25	0/10/20
Turkey	10/15	0/10	10
Turkmenistan	10	10	10
United Arab Emirates	10/15	0/10	12
United Kingdom	10/15/20	0/15	12.5
United States	—[3]	0[2]	0[2]
Uzbekistan	10	0/10	15

(1) The reduced tax rates for dividends apply to payments from a substantial holding in a Pakistani industrial company, except under the treaties with Nigeria, Romania, Korea and Turkey (which do not restrict the size of the holding or the company's activity) and the treaty with the Netherlands (which requires only a substantial holding). (2) These treaties may lack a withholding-tax limit or specify limits that result in the application of Pakistan's national rates. (3) The treaties with Japan and the US may result in national rates or national rates minus 6.25%.

5.5 Transfer pricing

Planning for methods, documentation, penalties and other transfer-pricing issues is a complex undertaking. In addition to this brief summary of country-specific information, please consult Deloitte's online Strategy Matrix for Global Transfer Pricing (a PDF file under Learn More) at www.deloitte.com/tax/transferpricing. This comprehensive guide includes essential information regarding the transfer-pricing regimes in 39 jurisdictions around the world.

The tax authorities view with suspicion any fee payments to parent companies. A permanent establishment in Pakistan of a foreign company is allowed to deduct business expenses, including executive and administrative expenses paid in Pakistan or abroad. Apart from actual payments to third parties, amounts payable to the head office are not deductible if they are royalties, fees or similar payments for the use of tangible or intangible assets, compensation for any services, including management services, or interest on loans from the head office (except for a banking business). Deductions are allowed for head-office expenses only in the same proportion to the permanent establishment's turnover as the company's total head-office expenditure bears to its worldwide turnover.

5.6 Turnover and other indirect taxes and duties

As part of its tax-reform programme, the government has committed to introducing no new exemptions or special privileges under the sales tax, income tax and customs tariff regime, and to allowing all time-bound exemptions to lapse without extension.

General sales tax (GST), at the rate of 15%, unless expressly exempted, is broadly applicable to most locally produced goods and those imported into Pakistan (including petroleum products and fertiliser) and also to a number of services (such as telephone calls, credit cards, air travel and mobile phones). In an important change, the 2004/05 budget removed the other three sales tax rates of 18%, 20% and 23%. It allowed the adjustment of input taxes on most items, including diesel.

The 2004/05 budget also changed the sales tax registration requirements. It raised the exemption from sales tax registration to PRs5m of annual turnover from supplies, from PRs500,000 for manufacturers and from PRs1m for retailers. Importers and traders (distributors and wholesalers) also are required to register. Those not required to register may register voluntarily. The budget allowed registered retailers with a turnover exceeding PRs5m per year to pay sales tax on the basis of 15% value addition, with simplified record-keeping. Previously, those who voluntarily registered had the alternative of enrolling as turnover taxpayers, paying tax at 2% of their turnover, but the budget abolished this turnover tax. In the 2003/04 budget the government had allowed all businesspersons who registered by September 30th 2003 to pay turnover tax at 2% for one year, with no questions asked about past liabilities. An additional tax of 3% of value addition used to be levied on taxable supplies to unregistered persons, but the 2004/05 budget removed this tax.

A forceful drive to register traders (retailers, wholesalers and distributors) and collect sales taxes from them has been under way for the past three years. Jewellers are allowed to use a simplified scheme where sales tax is levied at 15% of the prices of jewellery, excluding the value of gold and silver used in it.

An additional tax applies when registered entities do not pay the tax due, or pay it incorrectly; the 2003/04 budget rationalised this tax from 2% to 1% and reduced the rate of penalty on delayed filings from PRs5,000 per case to PRs100 per day for the first 15 days. The turnover estimates for non-payers or irregular payers is now assessed according to a predetermined set of parameters, including location, type of business, number of workers and amount of capital. The government also promised that sales tax audits would be conducted only once a year. The government announced in the 2004/05 budget that the Central Board of Revenue's Central Registration Office would begin registering sales tax using an automated risk-based module to minimise contact between the department and taxpayers.

The base of the GST has been broadened significantly in recent years and non-standard exemptions are being reduced. However, sales tax does not apply to certain categories of goods, including the temporary import of goods for re-export; computer hardware, software and related products; supply of locally manufactured plant and machinery to export processing zones; and the import of machinery that is not manufactured locally and is used to manufacture taxable goods by a registered person. All goods actually exported under the Customs Act are also eligible for sales tax refunds.

The 2004/05 budget exempted from GST the import of tractors, bulldozers, combine harvesters and other agricultural implements; agricultural machinery manufactured locally; and plant, machinery and equipment not locally manufactured. It also applied a zero rate to locally supplied plant, machinery and equipment, ginned cotton, hides and skins, and raw wool. It removed the tax exemption on cottonseed and imposed a 15% tax.

The 2003/04 budget exempted from sales tax the machinery and equipment used in the following sectors: livestock, agriculture, water purification, desalination, and treatment of wastes and effluents. The government first imposed a 15% GST in March 2002 on all medicines, and then rolled it back on many essential drugs.

The 2001/02 budget provided for simplified record-keeping, and offered a choice between supervised clearance and self-clearance. But units using self-clearance are subject to audit, and they must follow the archaic rule of declaring a 10% increase in revenues every year. The 2002/03 budget moved cement and cigarettes from the supervised clearance system to the self-clearance system. That budget also completed the equalisation of central excise duty (CED) incidence on imports and local production for all items, to provide a level playing field to local manufacturers. When CED on local production is levied on a retail-price basis, CED on similar imported items is levied on the maximum retail price at which they are sold in Pakistan. To simplify CED procedures, the 2002/03 budget exempted manufacturers of excisable commodities registered with sales tax authorities from keeping separate raw material accounts and submitting quarterly returns of consumption. It also removed the condition that CED licences must be renewed annually.

In February 2002 the government changed the payment mode of CED on imported materials and their finished goods, in order to avoid double taxation. Under the old rules in force since 1996, manufacturers had to pay duty at the import stage on materials and again on the finished products made with such materials. Under the new scheme, manufacturers may deduct the duty already paid at the import stage and pay only the difference of the duty applicable to the finished goods, provided the materials were imported by the manufacturers themselves. The facility is available on a number of items, including essential oils, resinoids, perfumes, cosmetic or toilet preparations, soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, and candles.

5.7 Other taxes

Every industrial establishment with total income of at least PRs200,000 must contribute 2% of after-tax earnings to the Workers' Welfare Fund. Municipalities impose water-fee taxes on a building's annual gross rental value and charge another 5% as a conservation tax. The total tax is 33–38% in Karachi and 20–23% elsewhere.

Withholding tax is 6% on the execution of work contracts exceeding PRs30m (5% for contracts below this limit) and 8% on turnkey contracts; 4% for power projects and 5% for hydroelectric power projects; it is 5% for annual rentals (including rent for furniture and services) exceeding PRs300,000 (raised from PRs200,000 in the 2004/05 budget). The 2002/03 budget reduced withholding tax on prepaid mobile- and fixed-telephone cards to 10% of the value of the card or bill. The withholding tax on purchases made by poultry-processing units was removed, and the withholding tax on exports of processed poultry meat was reduced to 0.75% (from 1.25%). The 2004/05 budget allowed the import of machinery for commercial purposes without the payment of withholding tax.

Zila tax, charged on the movement of goods through different regions of the country, was abolished in 1999.

5.8 Tax compliance and administration

Companies must pay advance tax for the relevant quarter on or before September 15th, December 15th, March 15th and June 15th (changed from October 7th, January 7th, April 7th and June 21st in the 2004/05 budget). Turnover tax and income tax returns must be filed by December 31st for those firms with fiscal years ending between January 1st and June 30th, and by September 30th for any other company.

6.0 Personal taxation

6.1 Taxable income and rates

The 2004/05 budget raised the personal exemption limit to PRs100,000 from PRs80,000. The number of brackets was reduced in the 2001/02 budget, to five from seven. The minimum and maximum rates continue to be 7.5% and 35%.

In June 1999 a Self-Assessment Scheme (SAS) was introduced. It allows taxpayers to assess their own taxes and file a simple return. The Income Tax Ordinance 2001 (ITO 01), which was enacted in July 2002, replaced this with a simpler universal SAS, which accepts the taxpayer's estimate of tax liability and treats it as an assessment order. But the authorities may devise criteria each year to select returns for audit. The capital value tax applies to transactions for real estate, cars, the purchase of international airline tickets and the purchase of shares. A withholding tax of PRs50–300 is charged on monthly fixed-line phone bills; a 10% withholding tax is levied on mobile-phone bills and pre-paid telephone cards.

An example of the personal tax burden is given below. To provide relief to salaried employees, the government allows substantial tax reductions of 5–50% for those whose salary comprises more than 50% of their total income. There is also a 50% special tax rebate for persons who are older than 65 years of age and earn up to PRs300,000 a year (increased from PRs200,000 in the 2004/05 budget). A 10% surcharge on salary income was withdrawn in the 2001/02 budget.

The following rates apply for the assessment year beginning July 1st 2005 (for fiscal year 2004/05):

Income bracket (PRs)	Tax on base amount (PRs)	Rate on bracket* (%)
0–100,000	—	—
100,001–150,000	—	7.5
150,001–300,000	3,750	12.5
300,001–400,000	22,500	20.0
400,001–700,000	42,500	25.0
700,001 and above	117,500	35.0

*These rates apply on the amount over the base in each bracket.

Tax reduction for salaried classes*

Income bracket (PRs)	Reduction of tax liability (%)
100,001–150,000	50
150,001–200,000	40
200,001–300,000	30
300,001–500,000	20
500,001–1,000,000	10
1,000,001 and above	5

*Salary must exceed 50% of total income to use this reduction.

Sample tax burden

Gross income*	PRs850,000
Base tax plus bracket rate	170,000
Salaried class reduction	17,000
Total tax payable	153,000
Tax burden as a % of income	18%

*Perquisites are valued according to certain norms and included in income.

Determination of taxable income

Under the new Income Tax Ordinance (ITO 01), a resident person's income includes both Pakistan- and foreign-sourced income, with a tax credit for any foreign taxes paid. A non-resident person's income includes only the amounts sourced in Pakistan. ITO 01 specifies that salary income is to be taxed on a gross cash-receipts basis. It also expands the definition of salary to include the following: market value of shares issued under employee-share schemes; compensation for loss of employment and golden-handshake payments; signing bonuses; monetary compensation made to an employee for his or her agreement to a restrictive employment covenant; and the amount of tax borne by the employer.

The following categories of income are exempt from income tax: most agricultural income; scholarships; support payments under an agreement to live apart; allowances paid outside Pakistan by the government; pension income; payments made out of the Workers' Participation Fund; income from approved foreign-currency bank accounts; and income from housing, including rent, up to specified limits and under certain conditions. Rebates are available for certain types of donations. Corporate dividends are taxed at source. Employer-provided medical allowances are exempt up to 10% of the employee's basic annual pay. Personal expenditures on medical services are tax exempt up to 10% of taxable income or PRs30,000, whichever is lower.

ITO 01 taxes perquisites on employees as follows:

- The services of a housekeeper, driver, gardener or other domestic assistant provided by the employer are valued at the amount paid by the employer for such services, less amounts actually paid by the employees.
- The utilities provided by an employer are valued at fair market value as reduced by any payment made by the employee.
- The value of an interest-free or concessional loan provided by the employer on or after July 1st 2002 is taxed. Interest-free loans are valued at an amount equal to the interest computed on a benchmark rate specified by the government. Concessional loans are valued at the difference between the interest paid by the employee in that year and the interest computed at the benchmark rate.
- Any property transferred or services provided by an employer to an employee is valued at the fair-market value at the time of transfer of property or provision of services.
- Any other perquisites for which the valuation method is not specifically prescribed are assessed at fair-market value.

The shares issued to an employee under an employee share scheme are taxable at the fair-market value of the shares determined on their date of issue, as reduced by any consideration given by the employee. The value of a right or option is not taxable until the employee exercises it.

A tax credit is available against payments by Pakistani residents towards a retirement annuity scheme of up to 10% or PRs200,000, whichever is lower (raised from PRs100,000 in the 2003/04 budget). The previous budget also made changes to tax policies for National Investment Trust shareholders, government securities shareholders, National Savings Schemes members and unit-trust scheme members.

6.2 Residency

Residents are defined as individuals who live in Pakistan for at least 182 days a year. However, the foreign-sourced income of those who are resident solely because of their employment and are resident in Pakistan for less than three years is tax-exempt; this applies to most foreign businessmen.

6.3 Special expatriate tax regime

A non-resident individual is taxed only with respect to his or her Pakistan-source income. Salary constitutes Pakistan-source income to the extent to which the salary is received from any employment exercised in Pakistan, wherever paid or when salary is paid by, or on behalf of, the Federal Government, a provincial government, or a local authority in Pakistan, wherever exercised.

Foreign-source salary of a resident individual is exempt from tax if the individual has paid foreign income tax in respect of the salary.

6.4 Capital taxes

Farmland, airline tickets and motor vehicles are subject to capital taxes. Farmland valued at PRs200,000 or more attracts a capital value tax (CVT) of 2.5%, as do immovable properties exceeding 200 sq metres (240 sq yards) and apartments exceeding 140 sq metres (1,500 sq feet) in urban areas. CVT on international airline tickets is levied at a rate of 1.5% of the value of the ticket; and motor vehicles are taxed at 3.7–7.5%, depending on the size of the engine.

Individuals who pay zakat (wealth tax) are not liable for CVT, and general CVT exemptions are available for certain types of investment, professional tools, retirement benefits and a house occupied by the taxpayer. CVT has not been charged on the registration of immovable properties since 2000/01. CVT is also not payable on imported vehicles if a single consolidated duty has been paid in foreign exchange. A passenger bus imported under the non-repatriable investment scheme is exempt from CVT. The 2004/05 budget subjected the purchase of shares to a CVT of 0.01% of the value of the shares.

7.0 Labour relations and workforce

7.1 Visa and entry requirements

All travellers to Pakistan require valid passports. A visa is also required with the exception of nationals of Iceland, Korea, the Maldives, Singapore, Trinidad and Tobago, Western Samoa and Zambia for a visit of 90 days or less. Pakistan refuses entry to nationals of Israel, even for transit; holders of passports issued by the government of Taiwan (China), except for transit or to change aircraft without leaving the airport; and nationals of Afghanistan who have previously visited or passed through India.

Single- and double-entry visas are valid for a visit of up to three months. A multiple-entry visa also allows six journeys in a total period not exceeding one year, with a maximum three-month stay at any one time.

7.2 The employment market

Based on an estimated population of 149m people in mid-2004 and a participation rate of 30%, the government estimates the size of the labour force to be about 44m, 67% rural and 33% urban. The employed labour force is defined as individuals of at least ten years of age who work for at least one hour during the reference period and are either "paid employees" or "self-employed". According to the government's 2003/04 economic survey, the total number of employed persons was 41.3m in June 2004, compared with 40.5m a year earlier. During 2003/04, the number of employed persons in urban areas increased from 13.1m to 13.4m, and that in rural areas grew from 27.4m to 27.9m. Employment increased at the rate of 2.1%, the same as in the previous year.

Agriculture remains the largest employer in Pakistan, employing 42.1% of the total labour force, according to the 2003/04 economic survey. The proportion of people employed in the community and social-services sector increased from 14.2% of the total labour force in 2000 to 15.5% in June 2004; in the trade sector, the share increased from 13.5% in 2000 to 14.8% in June 2004. The manufacturing and mining, construction and transport sectors employed 13.8%, 6.1% and 5.9%, respectively, of the total in June 2004, compared with 11.6%, 5.8% and 5% in 2000. The estimated official unemployment rate was at 8.3% from July 2002 through June 2004, with rural and urban rates of 7.6% and 9.8%, respectively.

There is growing international pressure on Pakistan to improve its labour standards, especially for child labour. The government also faces the task of retraining an estimated 250,000 workers from the public sector who are considered surplus. There is no legal retirement age in the private sector; workers may retire according to company policy, which ranges by age from 55 to 60 years and by years of service from 15 to 24.

7.3 Employees' rights and remuneration

In September 2002 the government adopted a new labour policy that aims eventually to consolidate more than 50 existing labour laws into just seven. Of these, a new Industrial Relations Ordinance 2002 (IRO 2002) was passed in October 2002 to replace the IRO 1969. The other six new laws being drafted are the Wages Ordinance, the Condition of Employment Ordinance, the Human Resource Development Ordinance, the Occupational Safety and Health Ordinance, the Labour Welfare and Social Safety Ordinance, and the Reformation of Labour Judiciary Ordinance; these are expected to be presented for parliamentary approval by the end of 2004. The government also aims to reform the labour judiciary, improve working conditions and strengthen democratic trade unionism. However, the trade unions have strongly criticised both the policy and the IRO 2002.

The unions oppose the IRO 2002 on various grounds. They point out that it has curtailed the power of courts to order the compulsory reinstatement of workers after wrongful termination, allowing them instead to order only compensation. Furthermore, courts may no longer send employers to prison; they may order fines of up to only PRs50,000. Unions claim that their registration process has been made more difficult. They also argue that a designated collective-bargaining agent could previously have ordered a re-audit of the company's accounts and that unions could have presented a panel of auditors from which the government would choose one; this is no longer possible under the IRO 2002. The IRO 2002 has also curtailed the power of the National Industrial Relations Commission, and proposes to abolish the labour appellate tribunal. Several joint negotiating forums have been eliminated and replaced with a workers' council that promises little. The government claims that these moves are meant to improve dialogue and reduce litigation.

The IRO 2002 (like its predecessor, the IRO 1969) gives employees the right to strike and employers the right to lock out, but it provides for more extensive preliminary conciliation and arbitration proceedings than the IRO 1969. However, the Essential Services Maintenance Act of 1952 restricts union activity in state-administered sectors, including railways, postal services, telephone and affiliated services, and airports and seaports. The IRO specifies the procedure to be followed before a strike can legally be called, although its provisions are not always followed. Certain actions are punishable as unfair labour practices: closure of an establishment without prior permission from the labour court (except for power failure, epidemic or civil commotion); illegal lockouts; illegal strikes; and slow-down tactics.

The Workmen's Compensation Act applies broadly to labourers earning less than PRs5,000 per month and entitles them to compensation for injuries resulting from on-the-job accidents. Employers are liable if incapacity lasts beyond a minimum of seven days. This law was modified with retroactive effect from July 2001.

Working hours

The Factories Act limits adults to an eight-hour working day or a 48-hour working week. The only exception is seasonal businesses, which operate no more than 180 days a year. In those businesses (eg timber-related work in mountainous areas), employees are limited to a ten-hour working day or a 60-hour working week. Many foreign companies observe a five-day week of 42–45 hours. Government offices have a five-day working week of 42 hours. There is no discrimination about working hours on the basis of sex.

7.4 Wages and benefits

The Tripartite National Wage Council was set up in 2000 to determine the minimum wage for different business activities, industries and occupations in different provinces.

On the council's recommendations, in October 2001 the government approved PRs2,500 per month as the minimum wage for unskilled workers by amending the West Pakistan Minimum Wage for Unskilled Workers Ordinance of 1969. The minimum wage was given retrospective effect from August 2001, and it applies to all establishments. The new minimum wage included the existing cost-of-living allowance of PRs550–650. Although the figure is higher than the PRs1,500 minimum wage that had been set in 1993, it is lower than the PRs3,000 per month proposed by the government's labour adviser. The government also intends to revise the minimum wage every three years instead of every nine years, as previously.

Nevertheless, the actual average monthly wage had been around this level, since inflation has put increasing pressure on employers to raise wages: the average wage for unskilled workers in July 2004 was PRs3,000, with provisions for a one-day weekend every week on Sunday and a half working day of four hours on Friday before afternoon prayers. In the market of daily-wage unskilled workers, wages are PRs90–185 per day. Mandatory benefits for workers include bonuses, allowances for education of employees' children and pension contributions. Employees are also entitled to 14 days of paid leave plus 10 days of casual leave during each calendar year and 16 days of sick leave at half the daily wage during every 12 months of service. Foreign-owned companies generally provide more generous fringe benefits (such as healthcare, retirement plans and other privileges, including employee-share-ownership plans) than do locally owned firms. The minimum wages in Pakistan might seem low compared with those of many other Asian countries.

Social insurance

Under Pakistan's social security scheme, employers with more than ten workers pay 7% of wages to cover the risks of sickness, maternity and employment injury. Compulsory life and disability insurance, old-age pensions, children's education (an obligation to provide free education up to matriculation for at least one child of each worker) and medical facilities are also part of the plan. The government fine-tuned this system in October 2001, amending seven labour laws with retrospective effect from July 2001. Among the main changes were the following:

- The government amended the Provincial Employees Social Security Ordinance of 1965, by introducing a "self-assessment scheme" of social security benefits, with effect from July 2001, under which every covered employee pays PRs20 per month. The wage ceiling for applying this act was increased from PRs3,000 to PRs5,000. Thus there are two rates of monthly contributions by employers: the 7% rate up to a maximum salary of PRs3,000 still applies for employees already covered under the act in June 2001. Those employers who opt for the self-assessment scheme after that time will pay 7%, up to the revised ceiling of PRs5,000.
- Following amendments to the Employees Old-Age Benefits Act of 1976, an industry or establishment employing fewer than ten persons may choose to be covered under this act. Such employers will also be covered under a "self-assessment scheme", with no inspections from the social-security office for two years. Effective from July 1st 2001, each insured employee pays a contribution of PRs20 per month. The employers whose employees were already insured under the act continue to pay monthly contributions at the rate of 5%, up to a salary of PRs3,000. Employers who opt for the "self-assessment scheme" pay at the rate of 5% up to a salary of PRs5,000.
- Through amendments to the Workman's Compensation Act of 1923, compensation for workers who suffer permanent disability or die during their employment was increased to PRs200,000 (from PRs100,000). Most multinational companies maintain higher rates for such events, agreed through collective labour agreements.
- All industrial companies that employ at least 100 workers and have paid-up capital of at least PRs2m or fixed assets worth at least PRs4m must introduce a profit-sharing plan. Such firms must also establish a workers' participation fund to which they contribute 5% of their annual pre-tax profits. The Companies Profits (Workers Participation) Act of 1968 was amended to increase the wage ceiling for application of the act to PRs5,000 (from PRs3,000). The share of a worker in the annual allocation to the fund was increased to PRs6,000 (from PRs3,000).

The wage ceiling of PRs3,000 for the Payment of Wages Act of 1936 was removed. All workers in industrial or commercial establishments now have the right to seek legal remedy for delayed wages or unauthorised deductions from wages.

Other benefits

In theory, employers must provide housing for one-quarter of their workforce, for which the government must provide land at nominal rates. In practice, however, this provision is seldom followed. In recent years, growing financial pressures on the government and the shrinking availability of government land near large cities has often meant that this provision has been ignored.

7.5 Termination of employment

Employee termination can be difficult. Pakistani laws establish procedures for terminating employees, although unions—especially in the public sector—can resist lay-offs. Either the employer or the employee may terminate employment upon serving one month of notice or (for an employer) granting one month of salary. Hourly paid workers who are retrenched must be given either two weeks' notice or two weeks' wages.

7.6 Labour-management relations

There are some 6,250 registered trade unions in Pakistan, with 850,000 members. Most of the unions are associated with the All-Pakistan Confederation of Labour, the United Workers Federal Association and the Pakistan Workers Federation. In April 2002 some 40 trade unions formed a Joint Co-ordination Council of Trade Unions to promote workers' rights. The country's labour laws and provisions under the Industrial Relations Ordinance are not necessarily followed when strikes are called. Although strikes have become more common, they still tend to be occasional rather than the norm.

Both public- and private-sector employers must recognise the unions. In companies where more than one union exists (because they represent different occupations or because of an internal split), the one with the largest support, decided through ballot, is considered the main representative in bargaining workers' rights and salary increases. To be eligible to bargain, the union must have at least one-third of the total workers within the establishment as its members. Trade unions claim that the new Industrial Relations Ordinance 2002 (IRO 2002) curtails collective-bargaining rights. For example, it allows employers to make settlements with individual workers in violation of collective-bargaining principles; and the termination, transfer or discharge of trade-union members is no longer defined as an unfair labour practice, giving companies more power over unions. Unsettled grievances can be referred to a labour court for adjudication. The National Industrial Relations Commission, a federal government agency in Islamabad, monitors violations of labour practices. The government has the right to ban any strike that might cause "serious hardship to the community or prejudice the national interest"; it may also ban strikes that have continued longer than 30 days. Strikes by workers who are not members of a legally registered union are considered illegal.

The growth of trade unions at the plant level has at times been a source of dispute in industrial relations, foiling efforts to promote mutual confidence. In order to check this, unions receiving less than a minimum level of support (20% of the votes) in an employee referendum will automatically be dissolved and their registration cancelled. Outside trade union activity under the respective International Labour Organisation (ILO) agreements will be trade based but not factory based. The 2002 labour policy also supports the idea that workers and employees can resolve these issues by developing a code of conduct.

7.7 Employment of foreigners

Pakistan places no restrictions on employing foreigners, and foreign companies may appoint foreign citizens as chief executives in Pakistan. Companies that want to employ foreigners must first seek permission from the government's Board of Investment. This is, however, merely a formality, and usually takes no more than two to three weeks.

8.0 General information

- **Board of Investment,** Ataturk Avenue, G-5/1, Islamabad 44000; Tel: (92.51) 9221824, 9202845; Fax: (92.51) 9217665/5554; Internet: http://www.pakboi.gov.pk.
- **Central Board of Revenue,** CBR House, Constitution Avenue, Islamabad 44000; Tel: (92.51) 9203875; Fax: (91.51) 9205593; Internet: http://cbr.gov.pk.
- **Export Processing Zones Authority**, government of Pakistan, Landhi Industrial Area (Ext), Mehran Highway, Karachi 75150; Tel: (92.21) 5082001/2; Fax: (92.21) 5082005/9; Internet: http://www.epza.com.pk.
- **Export Promotion Bureau**, Fifth Floor, Block A, Finance and Trade Centre, PO Box 1293, Shahrah-e-Faisal, Karachi 75200; Tel: (92.21) 9206487–90; Fax: (92.21) 9206461; Internet: http://www.epb.gov.pk.
- **Federation of Pakistan Chamber of Commerce and Industry,** Federation House, Sharea Firdousi, Main Clifton, Karachi 75600; Tel: (92.21) 5873691-94; Fax: (92.21) 5874332; Internet: http://www.g77tin.org/fpccihp.html.

- **Ministry of Information Technology,** Fourth Floor, Evacuee Trust Building, Aga Khan Road, F-5/1, Islamabad 44000; Tel: (92.51) 9209785; Fax: (92.51) 9203009; Internet: http://www.pakistan.gov.pk/moitt.
- **Information Technology and Telecommunications Division,** Government of Pakistan, Fourth Floor, Evacuee Trust Building, Aga Khan Road, F-5/1, Islamabad 44000; Tel: (92.51) 9208931; Fax: (92.51) 9261950; Internet: http://www.pakistan.gov.pk/itandtelecom-division/index.jsp.
- **Karachi Chamber of Commerce and Industry,** Aiwan-e-Tijarat Building, Aiwan-e-Tijarat Road, off Shahrah-e-Liaquat, Karachi 74000; Tel: (92.21) 2416091–94; Fax: (92.21) 2416095.
- **Ministry of Environment,** Local Government and Rural Development, 44-E Office Tower Blue Area, Islamabad 44000; Tel: (92.51) 9205871; Fax: (92.51) 9206343; Internet: http://www.pakistan.gov.pk/environment-division/index.jsp.
- **Ministry of Finance,** Pak Secretariat, Islamabad 44000; Tel: (92.51) 9211707; Fax: (92.51) 9210877; Internet: http://www.finance.gov.pk.
- **Ministry of Industries and Production,** A&D Block, Pak Secretariat, Islamabad 44000, Tel: (92.51) 9201992/9; Fax: (92.51) 9205130, 9202165; Internet: http://www.moip.gov.pk.
- **Ministry of Science and Technology,** Fourth Floor, Evacuee Trust Complex, F-5 Islamabad 44000; Tel: (92.51) 9210208; Fax: (92.51) 9205376; Internet: http://www.pakistan.gov.pk/most.
- **Monopoly Control Authority**, 65-E, Pak Pavilions Plaza, Fazal Ul Haq Road, (G-7/F-7), PO Box 1227, Islamabad 44000; Tel: (92.51) 9203768; Fax: (92.51) 9219218.
- **National Industrial Relations Commission,** Fifth Floor, B Block, Pak Secretariat, Islamabad 44000; Tel: (92.51) 9213686; Fax: (92.51) 9202919; Internet: http://www.pakistan.gov.pk/labour-division/departments/nircom.htm.
- **Overseas Investors' Chamber of Commerce and Industry,** Chamber of Commerce Building, Talpur Road, Karachi 74000; Tel: (92.21) 2410814/15; Fax: (92.21) 2427315.
- **Pakistan Computer Bureau,** 24-B, H-9/1, Islamabad 44000; Tel: (92.51) 9257723; Fax: (92.51) 9290502; Internet: http://www.pcb.gov.pk.
- **Pakistan Export Finance Guarantee Agency,** 506, Business Finance Centre, I.I. Chundrigar Road, Karachi 74200; Tel: (92.21) 2400041-46; Fax: (92.21) 2400051; Internet: http://www.pefg.org.
- **Pakistan Insurance Corp,** PIC Towers, 32-A, Lalazar Drive, M.T. Khan Road, PO Box 4777, Karachi 74000; Tel: (92.21) 9202908–14; Fax: (92.21) 9202921/22.
- **Pakistan Software Export Board,** Second Floor, Evacuee Trust Complex, F-5/1, Aga Khan Road, Islamabad 44000; Tel: (92.51) 9204074; Fax: (92.51) 9204075; Internet: http://www.pseb.org.pk.
- **Patent Office,** Ministry of Industries, 146 ASAD Chambers, Shambunath Street, Saddar, Karachi 74003; Tel: (92.21) 9205742; Fax: (92.21) 9205746.
- **Securities and Exchange Commission of Pakistan,** National Insurance Corp Building, Jinnah Avenue, Islamabad 44000; Tel: (92.51) 9207091; Fax: (92.51) 9204915; Internet: http://www.secp.gov.pk.
- **State Bank of Pakistan,** I.I. Chundrigar Road, Karachi 74000; Tel: (92.21) 24450298; Fax: (92.21) 9212436; Internet: http://www.sbp.org.pk

9.0 Office locations

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