

# Doing Business in Pakistan





# Preface

This guide has been prepared by Baker Tilly Mehmood Indress Qamar, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Pakistan.

Baker Tilly International is a top 10 network of independent accounting and business advisory firms by combined fee income, and is represented by 126 firms in 147 countries and over 30,000 people worldwide. Its members provide high quality accounting, assurance, tax and specialist business advice to privately held businesses and public interest entities.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be downloaded from [www.bakertillyinternational.com](http://www.bakertillyinternational.com).

Doing Business in Pakistan has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Pakistan matters can be obtained from Baker Tilly Mehmood Indress Qamar, contact details can be found at the end of this guide.

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# 1 Fact Sheet

Facts and figures as presented are correct as at 30 August 2017.

## Geography

Location:	South Asia
Area:	796,095km <sup>2</sup>
Land boundaries:	Afghanistan, China, India and Iran
Coastline:	Arabian Sea
Climate:	Mostly hot, dry desert; temperate in the northwest and arctic in the north
Terrain:	Flat plains in the east; mountains in the north and northwest; plateau in the west
Time zone:	GMT +5

## People

Population:	193.56 million (2016)
Religion:	Muslim (official religion) 96.4%, other 3.6% (2010 estimate)
Language:	Official languages: Urdu and English

## Government

Country name:	Islamic Republic of Pakistan
Government type:	Federal parliamentary republic
Capital:	Islamabad
Administrative divisions:	Four provinces, one territory and one capital territory

**Political situation**

The bicameral parliament (Majlis-e-Shoora) consists of the Senate (104 seats) and the National Assembly (342 seats). The Head of State is the President, who is elected by the Electoral College consisting of the members of the Senate, National Assembly, and provincial assemblies. The Head of Government is the Prime Minister, who is selected by the National Assembly. Members of the cabinet are appointed by the President on the advice of the Prime Minister. The Supreme Court of Pakistan is the highest court and consists of the Chief Justice and 16 judges.

**Economy**

GDP – per capita:	US\$1,468 (2016)
GDP – real growth rate:	5.7% (2016)
Labour force:	68.05 million (2016)
Unemployment:	5.9% (2016)
Currency (code):	Pakistani rupee (PKR)



## 2 Business Entities and Accounting

The main company forms in Pakistan are companies limited by shares, companies limited by guarantee, and unlimited companies. Other business forms include partnerships, branches, and sole proprietorships.

### 2.1 Companies

A company in Pakistan may be limited by shares, limited by guarantee, or unlimited. Companies may be public or private. Separate provisions apply to the establishment and regulation of non-banking finance companies.

#### 2.1.1 Private and public companies

A private company may be formed by one or more persons. A public company may be formed by three or more persons.

A company is a private company if its articles of association:

- Restrict the right to transfer shares (if applicable)
- Limit the number of members to 50 (shares held by two or more persons jointly are treated as a single member), and
- Prohibit the public subscription of the company's shares (if applicable) or debentures.

#### 2.1.2 Companies limited by shares

The liability of members in a company limited by shares is limited to the unpaid amount of shares held by them. There is no minimum share capital requirement. The name of a company limited by shares must end with the word "limited" if it is a public company and by the words "(Private) Limited" if it is a private company. A company limited by shares may register articles of association setting out regulations for the company along with the memorandum of association. The memorandum of association may state that the liability of director(s) is unlimited.

Companies limited by shares are administered by the annual general meeting, and by at least one director in the case of a single member company, at least two directors for every other private company, at least three directors for an unlisted public company, and at least seven directors for a listed public company. Directors must be natural persons.

### **2.1.3 Companies limited by guarantee**

The liability of members in a company limited by guarantee is limited to the contribution agreed by them in the event of the company being wound up. There is no minimum share capital requirement. The name of a company limited by guarantee must end with the words “(Guarantee) Limited”. A company limited by guarantee is required to register articles of association setting out regulations for the company along with the memorandum of association. The memorandum of association may state that the liability of director(s) is unlimited.

Companies limited by guarantee are administered by the annual general meeting, and by at least one director in the case of a company with one member, at least two directors for companies with at least two members, at least three directors for an unlisted public company, and at least seven directors for a listed public company. Directors must be natural persons.

### **2.1.4 Unlimited companies**

The liability of members in an unlimited company is unlimited. There is no minimum share capital requirement. An unlimited company is required to register articles of association setting out regulations for the company along with the memorandum of association.

Unlimited companies are administered by the annual general meeting, and by at least two directors for companies with at least three members, at least three directors for an unlisted public company, and at least seven directors for a listed public company. Directors must be natural persons.

### **2.1.5 Company names, registration requirements and taxation**

A company name may not generally be identical or deceptively similar to the name of another entity already registered. The name must not be inappropriate or deceptive, or designed to exploit or offend the religious susceptibilities of the people. The name must also not contain certain words (such as words that suggest a connection with the government) without prior approval.

The memorandum of association and articles of association (if applicable) must be filed with the Registrar of Companies.

Companies are taxed at the corporate level and are subject to corporate income tax.

## 2.2 Partnerships

### 2.2.1 General Partnerships

A general partnership is formed between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Partners have unlimited liability for the debts/liabilities of the partnership, jointly and severally. The maximum number of partners permitted is generally 20. This limitation does not apply to partnerships formed to carry on practice as lawyers, accountants or certain other professions.

Partnerships are taxed at the corporate level and are subject to corporate income tax.

### 2.2.2 Limited Liability Partnerships

A limited liability partnership may be formed by at least one general partner and at least one limited partner. General partners have unlimited liability for the debts/liabilities of the partnership. Limited partners are liable to the extent of their capital contribution.

Limited liability partnerships are taxed at the corporate level and are subject to corporate income tax.

## 2.3 Sole Proprietorship

A sole proprietorship is comprised of an individual who independently owns and operates a business. A sole proprietorship is not a separate legal entity and the owner has unlimited liability for the debts and liabilities of the business.

The profits of a sole proprietorship are generally subject to personal income tax.

## 2.4 Branches and Liaison Offices

A foreign company may generally conduct business in Pakistan through a branch. A branch must submit certain documentation and information to the Registrar of Companies within 30 days of establishment in Pakistan, including a certified copy of the document containing the parent company's constitution. Branches must have a Pakistan resident representative who is authorised to receive services and notices required to be served on the company. Permission to establish a branch may be required from the Board of Investment or the State Bank of Pakistan (SBP). Branches must be registered with the Securities and Exchange Commission of Pakistan (SECP).

Branches are taxed at the corporate level and are subject to corporate income tax.

Foreign companies may also establish a liaison office in Pakistan with permission from the Board of Investment. Liaison offices must be registered with the Securities and Exchange Commission of Pakistan (SECP).

## 2.5 Audit and Accounting Requirements

Companies are required to prepare financial statements that present a true and fair view of the state of the company's affairs. Group companies are generally required to prepare consolidated financial statements. Listed companies and large companies (as defined) are generally required to prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted in Pakistan. Medium-sized companies (as defined) are generally required to prepare their financial statements in accordance with the Accounting and Financial Reporting Standards for Medium-Sized Entities (MSEs). Small companies (as defined) are generally required to prepare their financial statements in accordance with the Accounting and Financial Reporting Standards for Small-Sized Entities (SSEs). All companies are permitted to prepare their financial statements in accordance with IFRS issued by the IASB.

The company's balance sheet and profit and loss account (or income and expenditure account) must be audited by the company's auditor. The consolidated financial statements of group companies must also be audited by the company's auditor. The Securities and Exchange Commission of Pakistan (SECP) may also order a special audit of the company and appoint an auditor to carry out a detailed scrutiny of the company's affairs.

Companies are required to maintain books of account at the company's registered office, or at another location in Pakistan determined by the director(s) and filed with the Registrar of Companies. Books of account relating to the 10 years preceding the current year must be maintained.

## 2.6 Filing Requirements

Listed companies are required to submit three paper copies of the balance sheet, the profit and loss account, the auditor's report and the director's report to the Securities and Exchange Commission of Pakistan (SECP), the stock exchange, and the Registrar of Companies.

Companies (excluding private companies with a paid up capital of less than PKR10M) are generally required to file electronically a copy the audited financial statements with the Registrar of Companies within 30 days file electronically a copy the audited financial statements with the annual general meeting.

# 3 Finance and Investment

## 3.1 Exchange Control

Regulations and notifications regarding foreign exchange controls may be issued by the Government and by the State Bank of Pakistan (SBP) under the Foreign Exchange Regulation Act 1947.

Pakistan systematically combats money laundering and terrorist financing through its Financial Monitoring Unit (FMU), established under Pakistan's anti-money laundering and anti terrorist financing legislation. Regulated entities are required to submit suspicious transaction reports (STRs) and currency transaction reports (CTRs) to the FMU.

## 3.2 Banking and Sources of Finance

The State Bank of Pakistan (SBP) is responsible for monetary stability, regulating the monetary and credit system, regulating the banking sector, and issuing national currency. The Securities and Exchange Commission of Pakistan (SECP) is responsible for supervising and regulating non-banking finance companies, insurance companies and private pensions.

Commercial banks operating in Pakistan provide the majority of financial services. There are also specialised banks, microfinance banks and institutions, development finance institutions, and Islamic banks.

Foreigners wishing to open a bank account in Pakistan generally require a certificate from the Board of Investment (for businesses), or a certificate or other proof of employment in Pakistan (for employees in Pakistan). There are generally no restrictions on accounts containing foreign currency.

The Pakistan Stock Exchange (PSX) provides a marketplace for listing and exchanging securities.

There are various venture capital firms that provide investment in Pakistan.

### **3.3 Investment Incentives and Restrictions**

There are generally no restrictions on foreign business investment in Pakistan, except in areas deemed to be of national importance.



# 4 Employment Regulations

## 4.1 General Employment Matters

### 4.1.1 National employment standards

There are various legislative provisions providing minimum terms and conditions of employment, such as minimum wages, maximum daily and weekly working hours, annual leave entitlement, and sick leave entitlement.

Industrial and commercial establishments with at least 20 employees at any time during the previous 12 months are required to provide employees with a written statement containing the terms and conditions of employment. The notice period required for terminating the contract of employment of a permanent employee (as defined) is one month. This notice period applies to both the employer and the employee, except in cases of misconduct. Payment of wages may be given in lieu of notice.

The Minimum Wages Board sets minimum wages for all classes of worker.

### 4.1.2 Pensions and other benefits

Social security contributions generally provide employees with associated benefits.

## 4.2 Visas

Non-Pakistan citizens seeking to enter Pakistan must generally obtain a visa prior to entry. Citizens of countries with a visa abolition agreement with Pakistan do not require a visa for entry into Pakistan for designated periods.

The various visas available include:

- Diplomatic UN visa
- Student visa
- Journalist visa
- Non-governmental organisation (NGO) visa
- Work visa
- Afghan visa
- Pilgrimage visa
- Missionary work visa
- House-maid visa
- Third country foreigner visa
- Family visit visa for Pakistan origin foreigners
- Business visa for business people from business friendly countries
- Visa on arrival (VOA) for business people from business friendly countries
- Tourist visa, and
- Visa on arrival (VOA) for groups of tourists through designated tour operators.

For further information on Pakistan visa requirements visit [www.dgip.gov.pk](http://www.dgip.gov.pk).

There are generally no restrictions on foreigners purchasing property in Pakistan.

## 4.3 Trade Unions

Trade unions are permitted in Pakistan. It is not compulsory for employees to be a member of a trade union.



## 5 Taxation

We have comprehensive tax guides covering 150 countries. To be sent these guides, please confirm which countries are of interest by email to [tax.desk@bakertillyinternational.com](mailto:tax.desk@bakertillyinternational.com)

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