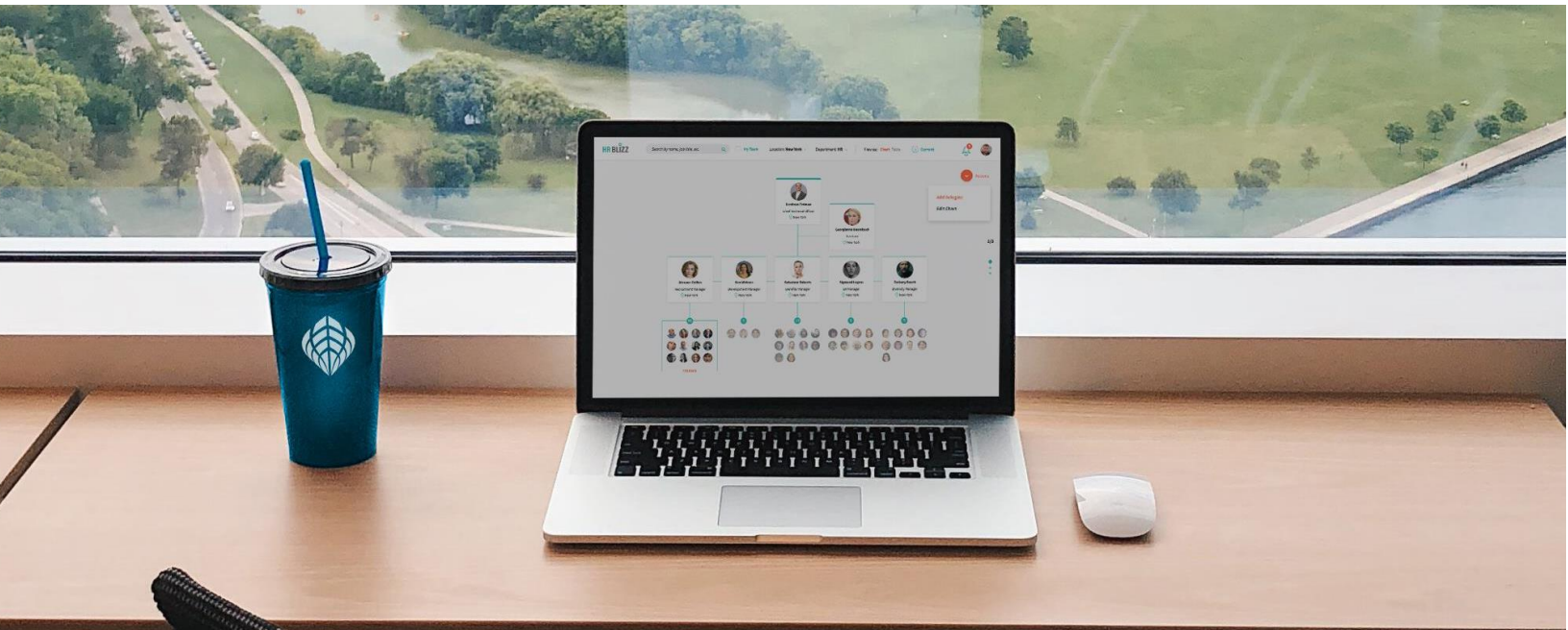




Simplifying Employment
Tasks Worldwide

Payroll & Tax Highlights

2020 Global Payroll Country Guide for Pakistan



ISLAMIC REPUBLIC OF PAKISTAN



12 December 2020



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Mercans at a Glance

140+

Countries

20

Years of Success

500+

Specialists

5k+

Customers Worldwide

97%

Client Retention Rate

1.5X

Annual Revenue Growth

25k+

Largest Single Payroll

2.5M+

Pay Slips per Annum

0

Security Breaches

Number one for outsourced payroll services, we are endorsed by international authorities.



Mercans has the highest industry quality and IT security certifications.





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Pakistan – Developing Nation on a Roadmap to Economic Growth.

Pakistan is categorized as a developing country and is one of the next eleven, a group of eleven countries that, along with the BRICs, have a high potential to become the world's largest economies in the 21st century. The structure of the Pakistani economy has changed from a mainly agricultural economy to a strong service & industrial base economy. With a nominal GDP of \$284.2 billion and a population of 212.23 million, Pakistan's economy primary depends on cotton textile production, sugar, cement, and tobacco and as well as food processing.

Looking out into 2020, it is expected the overall GDP to rise by 2.16% and 3.2% in year 2021. The new economic policy incentives for construction industry and corrective actions implemented for ease of doing business in Pakistan will have positive impact on the economy. In addition to that with IMF support program country export base in IT & textile would likely to grow and impacts positively on foreign exchanges reserves.

Pakistan executed the China Pakistan Economic Corridor (CPEC), an agreement with China in 2013 that will bring in investments worth of 46 billion United States dollars (USD) for construction of 3,000 km of roads across different regions of the country in order to act as gateway for Chinese products to Middle East & European Countries. This will add 15% to the gross domestic product (GDP) of the country, generating five million jobs and impacting the lives of 30 million people.

Pakistan long-term strategic goal is to provide a flexible framework for foreign investors to invest in energy, minerals, petroleum, IT and construction sectors. Government key emphasize in coming years is to provide support policies for tourism industry which will generate the business activity and improves the country image across the developed nations.

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Doing Business in Pakistan

Entity Registration & Incorporation Requirements

In Pakistan business can be conducted by either formation of a company or partnership. From independence in 1947 Pakistan was following Companies Act, 1913. based on local and international developments the regulator SECP (Securities Exchange Commission of Pakistan) introduced Companies Ordinance, 1984 by replacing Companies Act, 1913. After 33 years the regulator SECP introduced Companies Act, 2017 which repealed Companies Ordinance, 1984.

The Companies Act, 2017 is the longest one and exhaustive piece of legislation ever in the parliamentary history of Pakistan comprising of 515 sections and 8 schedules and it took almost 12 years in the making. The New Act address various shortcomings of the previous corporate regime as well as enlarge its scope by introducing new provisions and section in the Act to meet the corporate development. The Companies Act, 2017 regulates how corporations, investors, shareholders, directors, employees, creditors, and other stakeholders interact with each other for official business activities and the most crucial aspect of corporate law relates to raising capital for the business to operate i.e. through equity financing and debt financing.

There are additional characteristics of a company introduced in the Companies Act, 2017 which in nature are separate legal entity, limited liability, perpetual existence, common seal, transferability of shares and capacity to sue and be sued.

Under the Companies Act 2017, the below mentioned type of companies are be incorporated;

- (i) Public listed or unlisted Companies
- (ii) Private Limited Companies
- (iii) Company Limited by Shares
- (iv) Company Limited by Guarantee
- (v) Unlimited Liability
- (vi) Single Member Companies
- (vii) Branch Office of a Foreign Company
- (viii) Partnerships

Entity options are discussed briefly below.

Public listed or unlisted Companies

Public listed or unlisted company can be incorporated with minimum three persons and there is no restriction on maximum number of members. There are no restrictions on the transferability of shares. Public listed companies may issue a prospectus to invite general public to subscribe to its shares, debentures or deposits. A public company can start its business only when it receives the certificate to commence business from the Registrar of Companies. A



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public company must hold a statutory meeting and file statutory report. For public listed companies their shares can be traded on Pakistan three stock exchanges which are mentioned below;

- Karachi Stock Exchange
- Lahore Stock Exchange
- Islamabad Stock Exchange

Private Limited Companies

Private limited company can be incorporated with minimum two persons and maximum number of members is restricted to 50. For private limited company the right to transfer shares is restricted as per Articles of Association of a company and private companies are prohibited to invite public for subscription of its shares. A private company may commence business immediately after receiving the certificate of incorporation and do not need to hold a statutory meeting or file statutory report.

Company Limited by Shares

A company limited by shares can be a public listed or private company, the liabilities of members in this type of a Company are limited by Shares and are limited to the extent of their shares in the paid-up capital of the company. The incorporation requirement will be based on the nature of company

Company Limited by Guarantee

In Pakistan, company limited by guarantee means a company having the liability of its members limited by memorandum to such amounts as the members may respectively undertake to contribute to the assets of the company in the event of its winding up. A Company Limited by Guarantee is usually incorporated on a non-profit basis. Companies Limited by Guarantee in Pakistan use the words "(Guarantee) Limited" as the last words of their names.

Unlimited Liability

In an un-limited company, the liability of the members is unlimited, in the event of default or winding-up of a company, if the assets of the company are not enough to pay its liabilities, then the property of the members may be utilized for payment of company's liabilities

Single Member Company (SMC)

A person may form a single member company in Pakistan. SMC "Single Member Company" means a private company which has only one member/director and will benefit the privileges of company having limited liability. The introduction of the concept of a SMC has benefited sole proprietorships to obtain corporate status, giving them the privilege to limit the liability of their



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proprietor. All the shares are invested by single member/director, however, investor is required to appoint two individuals, one of whom shall become nominee director in case of death of the single member/director and the other shall become alternate nominee director to work as nominee director in case of non-availability of the nominee director and also SMC is required to appoint a company secretary. a company incorporated abroad can open a branch in Pakistan it is necessary for permission of Board of Investment to be obtained

Branch Office of Foreign Company

A company incorporated abroad or having foreign ownership can open a branch in Pakistan and it is necessary to have permission from Board of Investment. Every company incorporated outside Pakistan must, within one month of establishing a place of business in Pakistan, file with Registrar a certified copy of its charter or memorandum, address of its principal or registered office, list of its directors, chief executive and secretaries, name and address of principal officer of company in Pakistan, names and addresses of one or more persons authorized to accept service of process and notices on behalf of company, and address of its principal place of business in Pakistan.

Partnerships

Partnerships in Pakistan can be formed by twenty or less persons wishing to carry out a lawful commercial activity or a profession may form a partnership except in certain cases e.g. where twenty or more persons may form partnership to undertake practice as lawyers or accountants or any other practice which cannot be carried out as a limited liability company under the provisions of law. In all other cases where the number of intended partners increases beyond the figure of twenty a company should be incorporated. Legal regime for establishment and regulation of partnerships in Pakistan is stated in the Partnership Act, 1932 which defines a partnership in the following terms

Incorporation Process for Companies

The general incorporation steps for companies in Pakistan are mentioned below, which may vary based on the legal entity type:

- Selection of type of the company.
- Selection of name for the proposed company.
- Obtaining 'name availability' from Registrar of Securities & Exchange Commission of Pakistan (Form I).
- Draft and execute Memorandum (Sec 16) (Form II)
 - (i) Name of the Company
 - (ii) Domicile clause
 - (iii) Principal line of Business
 - (iv) Statement of Liability



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- (v) Authorized Capital
- Articles of Association and other documents.
 - (i) Holding of meetings
 - (ii) Appointment of Directors
 - (iii) Declaration of dividends
 - (iv) Appointment of Company Secretary
 - (v) Preparation of Financial Statements
- Payment of fees to SECP.
- Represent with Securities & Exchange Commission of Pakistan for any reservations or comments he may have.
- Procure incorporation certificate from Securities & Exchange Commission of Pakistan.
- Subscribe to the agreed share capital of the company.
- Preparation and filing of Prospectus (in case of public companies).
- Obtaining commencement of business certificate for public companies.

Incorporation of Partnerships

A partnership business can be registered with the Registrar of Firms of an area where the office of the firm is situated or proposed to be situated.

A below list of statement in prescribed form must be delivered to the relevant Registrar stating:

- (i) Firm name
- (ii) Place or principal place of business of the firm
- (iii) Names of any other places where the firm carries on business
- (iv) Date when each partner joined the firm
- (v) Names in full and permanent addresses of the partners
- (vi) Duration of the firm

The above-mentioned statement must be signed by all the partners of the firm for the time being or any authorized agent on their behalf. Furthermore, the statement must be verified by the persons signing it.

Once the incorporation process is completed with Securities Exchange of Pakistan, then the below registrations needs to be completed by the company.

- Open a Company Bank Account, Transferring the Share Capital into bank account.
- Registration with Federal Board of Revenue (FBR) for Company Corporate Tax Number.
- Upon registration with FBR, companies need to register with provincial tax authorities which are mentioned below:
 - (i) Punjab Revenue Authority (PRA)
 - (ii) Sindh Revenue Board (SRB)
 - (iii) Khyber Pakhtunkhwa Revenue Authority (KPRA)
 - (iv) Balochistan Revenue Authority (BRA)



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- Registration with Employees Old-Age Benefits Institution (EOBI) for corporate social security number.
- Upon registration with EOBI, companies need to register with provincial social security authorities which are mentioned below
 - (i) Punjab Social Security Institution (PESSI)
 - (ii) Sindh Employees Social Security Institution (SESSI)
 - (iii) KP Employee Social Security Institution (KESSI)
 - (iv) Balochistan Employees Social Security Institution (BESSI)
- Registration with Chamber of Commerce (COC) for company COC number.

Registration with the Employees Old-Age Benefits Institution (EOBI)

To register for EOBI social security insurance, the company must fulfill below mentioned conditions:

- For manual registration the company should have at minimum five regular employees on payroll.
- If company have five employees onboard, then company needs to fill Form PR01 and submit to local authorities along with the other registration documents of the company.
- Once company have twenty employees onboard then company can opt for online user id registration which allows the company to manager staff EOBI online.
- EOBI contributions are payable within following two weeks once the payroll month is closed.
- Payments to EOBI can be issued via cash or cheque to EOBI designated banking partner by physically visiting the bank, currently the online payment mechanism is not facilitated.
- EOBI has announced the minimum wage of PKR 15,000 for employee, but for contribution calculations EOBI has directed to use minimum wage of PKR 13,000.
- Employee contribution percentage is 1% of the minimum wage (PKR 13,000 *1%) PKR 130 which employer will deduct from employee salary and then deposit to EOBI.
- Employer contribution percentage is 5% of the minimum wage (PKR 13,000 *5%) PKR 650 which employer will pay to EOBI.

Accounting and Reporting

In Pakistan for all companies the Companies Act of 2017 (formerly Companies Ordinance of 1984) stipulates the accounting and financial reporting framework. The SECP delegated the responsibility of developing and adopting accounting standards to ICAP (Institute of Chartered



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Accountant of Pakistan). As per the global accounting practices ICAP has adopted the IFRS (International Financial Reporting Standards). As per the Companies Act of 2017, listed companies (including foreign companies listed in Pakistan), public interest companies (including public sector companies, public utility companies, financial institutions, and companies in the process of being listed), and large-sized non-listed companies (companies with paid-up capital exceeding 200 million PKR or with an annual turnover exceeding 1 billion PKR) are required to apply IFRS in the preparation of their financial statements

Medium-sized companies are those companies which are other than listed, public interest, large-sized, and small-sized can opt to use IFRS for SMEs or full IFRS for their financial reporting.

Small-sized entities, defined as companies with paid-up capital not exceeding 25 million rupees and with turnover not exceeding 100 million rupees, can choose to use Accounting and Financial Reporting Standards for Small-Sized Entities (AFRS for SSEs), IFRS for SMEs, or full IFRS.

The Insurance Ordinance of 2000 outlines financial reporting requirements for insurance companies. Under the Ordinance, insurance companies are mandated to follow financial reporting standards issued by ICAP. For the bank under Banking Companies Ordinance, the State Bank of Pakistan (SBP) is responsible for setting financial reporting requirements for banks and similar financial institutions. The SBP requires banks and financial institutions to submit audited financial statements prepared and audited according to the standards issued by ICAP.

Banking

Banking and foreign direct investment institutional operations are regulated by State Bank of Pakistan (SBP). Banks in Pakistan are extending lending operations to medium and large size companies or different tenures, due to fiscal deficit in government budgets, commercial bank does also lend to government which makes their lending more secure.

In general, banks are open from 09:00 AM to 05:30 PM, Monday to Friday, there will be 1.5-hour break of 01:00 PM to 02:30 PM on Friday due to Friday prayer sermon. On Saturday, limited branches of bank are operating from 09:00 AM to 01:30 PM and Sunday is official weekend.

It is mandatory to have an in-country bank account to process payments in Pakistan. All government payments must be paid through local bank account based on the payment mediums regularized by the FBR. All entities are encouraged to pay their employees for their payroll payments through bank transfer to employee bank account.



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Working Week

The typical working week in Pakistan is Monday to Friday from 9am to 6pm. Friday is the only official weekend day and Saturday is often a working day for the construction and service industries.

The number of legal working hours in a week in Pakistan should not be more than 48 hours and number of hours in a day should not be more than nine hours. However, Sunday is generally not considered as a working day in the country. During the Ramadan month, employees are expected at their workplace for only six hours a day and 36 hours in a week. These hours do not include their lunch, rest and prayer times. If the employee is asked to work during weekends, they will be eligible for overtime pay. In case of overtime, the employer shall pay the employee an additional amount equal to the hourly wage plus 50% of their monthly wage.

The working hour's related regulations have been summarized below:

Area	Regular Employee	Female Employee
Workdays (1)	Monday – Friday (Saturday - Sunday is the only official weekend day). (1)	Monday – Friday (Saturday - Sunday is the only official weekend day). (1)
Weekly Regular Working Hours (1)	Daily Criterion – 9 hours/day	Daily Criterion – 9 hours/day
Breaks	Min 1-hour break (not part of the working hours i.e. unpaid – employee may not be required to stay at their workplace) (1)	Min 1-hour break (not part of the working hours i.e. unpaid – employee may not be required to stay at their workplace) (1)
Max Stay at the Workplace	12 hours per day (1)	12 hours per day (1)
Ramadan Working Hours (1)	Daily Criterion – 6 hours/day	Daily Criterion – 6 hours/day
Total Maximum Working Hours (Regular + Overtime)	12 hours per day	12 hours per day



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Public Holidays (3)	05-February 1 day – Kashmir Solidarity Day	05-February 1 day – Kashmir Solidarity Day
	23 March 1-day Pakistan Day	23 March 1-day Pakistan Day

Public Holidays (3)	01 May 1-day Labour Day	01 May 1-day Labour Day
	14 August 1-day Independence Day of Pakistan	14 August 1-day Independence Day of Pakistan
	25 December 1- day Quaid-e Azam's Birthday	25 December 1-day Quaid-e Azam's Birthday
	Based on Moon Sighting 3-days Eid-ul-Fitr	Based on Moon Sighting 3-days Eid-ul-Fitr
	Based on Moon Sighting 3-days Eid al-Adha	Based on Moon Sighting 3-days Eid al-Adha
	Based on Moon Sighting 2-days Ashura	Based on Moon Sighting 2-days Ashura
	Based on Moon Sighting 1-day Prophet's Birthday	Based on Moon Sighting 1-day Prophet's Birthday



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Notes:

1. Most common approach
2. With the approval of employment act, number of working hours may be increased to more than eight hours a day to forty-eight hours a week, provided that the average working hours in three weeks' time shall not be than eight hours a day or forty-eight hours a week.
3. In accordance to the Employment act, public holidays are not extended if they fall on a weekend day. However, most companies may provide a replacement day.

Basic Facts

Official State Name	Islamic Republic of Pakistan
Population	220 million
Capital	Islamabad
Major Languages	Urdu
Currency	Pakistani Rupee (PKR)
Main Industries	Cotton Textile Production and Apparel Manufacturing
GDP Growth	3.30% (2019)
Internet Domain	.pk
International Dialing Code	+92
Dates & Numbers	Dates are usually written in the DD/MM/YYYY format.



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Income Tax & Corporate Tax

In Pakistan Federal Board of Revenue (FBR) is a responsible federal tax agency to plan and implement fiscal policy announced by the government. In addition to federal tax agency there are four provincial tax agencies which operates on provincial level which are, Punjab Revenue Authority (PRA), Sindh Revenue Board (SRB), Khyber Pakhtunkhwa Revenue Authority (KPRA), Balochistan Revenue Authority (BRA). For federal and provincial tax agencies the sources of tax law are mentioned below;

- Income Tax Ordinance 2001
- Income Tax Rules 2002
- Sales Tax Act 1990
- Federal Exercise Tax 2005
- Sindh Sales Tax on Services Act 2011
- Punjab Sales Tax on Services Act 2012
- Khyber Pakhtunkhwa Tax on Services Act 2013
- Balochistan Sales Tax on Services Act 2015

Fiscal (Tax) Year

In Pakistan for individual and companies, fiscal year start from 01st of July each year and ends of 30th June which is probably the financial year for all as well. All individuals must follow the fiscal year and there are no exemptions but for companies there is provision to opt for different financial year based on preapprovals from FBR if they do not want to follow the fiscal year as financial year.

Personal Income Tax (Individual)

Income Tax Ordinance 2001 defines the principal for an individual to be considered as resident or nonresident, according to the law if an individual he/she is in Pakistan for 183 days or more in particular fiscal year then he/she we will be considered as a resident taxpayer.

Resident individuals are taxed on their worldwide income and nonresidents are taxed only on their Pakistan source-income as an example dividends payment to nonresident. For individual taxable income is dividend into five categories of income which are, income from employment (Salary), income from exercise of a profession, income for property, capital gains and other income.

For individual's capital gains tax is taxed at the applicable personal income tax rate. Capital gains on disposal of listed shares and securities are tax in a same manner as it was taxed for companies.



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Currently there is no inheritance tax applicable to individuals in Pakistan, but real property tax is applicable on sale/purchase based on the provincial level. In addition to real property tax there is 5% tax is levied on the gross sale price of property or goods sold by auction which is subject to certain conditions.

For Individuals deductions and allowances are available for non salaried individuals but not for salaried individual with the exception of Zakat. Furthermore, individuals are also allowed for deductions on account of interest paid on the house loans and tuition fees paid for their children's. The deductible amounts are restricted as mentioned in income tax ordinance 2001.

Income tax is payable by the salaried and non salaried individual, if their annual taxable income exceeds PKR 400,000. For non salaried individuals, the tax rates are progressive with the maximum tax payable amounting PKR 600,000 plus 29% of the taxable income exceeding PKR 5 million. For salaried individuals (i.e. cases where salary income exceeds 50% of taxable income), the tax rates are progressive with the maximum tax payable amounting PKR 1.09 million plus 25% of taxable income in excess of 8 million. For fiscal year 2019-2020 tax brackets in details are mentioned below for salaried individuals. Employer will deduct the income tax from monthly salary at source and then employer will pay the tax to local authority FBR.

For Individual compliance purposes, all individuals must file their annual income tax returns to FBR by 31st August of each year. Resident individuals are also required to file a statement of wealth and a wealth reconciliation statement as at 30 June. Individual needs to submit separate return and cannot file a joint return. The penalty for failure to file a tax return is 0.1% of the amount of tax payable for each day of default. The minimum penalty is PKR 20,000 and the maximum are 50% of the amount of tax payable.

Annual Income (in PKR)		2019-2020 Income Tax Bracket For Salaried Individuals	
From	To	Tax Rate/Minimum Tax Amount in PKR*	
1	600,000		0%
600,001	1,200,000	5% of the amount exceeding PKR 600,000	
1,200,001	1,800,000	PKR 30,000 plus 10% of the amount exceeding PKR 1,200,000	
1,800,001	2,500,000	PKR 90,000 plus 15% of the amount exceeding PKR 1,800,000	
2,500,001	3,500,000	PKR 195,000 plus 17.5% of the amount exceeding PKR 2,500,000	
3,500,001	5,000,000	PKR 370,000 plus 20% of the amount exceeding PKR 3,500,000	
5,000,001	8,000,000	PKR 670,000 plus 22.5% of the amount exceeding PKR 5,000,000	
8,000,001	12,000,000	PKR 1,345,000 plus 25.0% of the amount exceeding PKR 8,000,000	



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12,000,001	30,000,000	PKR 2,345,000 plus 27.5% of the amount exceeding PKR 12,000,000
30,000,001	50,000,000	PKR 7,295,000 plus 30.0% of the amount exceeding PKR 30,000,000
50,000,001	75,000,000	PKR 13,295,000 plus 32.5% of the amount exceeding PKR 50,000,000
75,000,001	Above	PKR 21,420,000 plus 35.0% of the amount exceeding PKR 75,000,000

Corporate Income Tax

Income Tax Ordinance 2001 defines the principal for a company to be considered as resident or nonresident, according to the law if an entity is registered under the company's law of Pakistan or its management and control is wholly situated in Pakistan.

Resident companies are taxed on worldwide business income and nonresidents companies pays tax only on Pakistan-source income. For company's taxable income is taxed under five "heads of income," i.e. business income, rental income, capital gains, salary income and other sources. Business income of a resident entity or a permanent establishment (PE) of a nonresident entity is taxed either on a presumptive/final taxation basis for specified types of income or on a net taxable income basis.

The normal course of taxation for companies is based on net taxable income, although for nonresidents without a PE, the final taxation regime applies on categories like royalty, technical service fee, shipping and air transport income. Nonresidents can elect for taxation under the final taxation regime with respect to income from certain construction, assembly and similar projects. In final taxation category, gross income is taxed on flat rate, without any deductions for expenditure or allowances. Under Net taxable income the normal regime is computed based on specific rules and principles, and expenses may be deducted from gross income.

The corporation tax rate is 29% for the 2019 tax year (reduced from 30% for fiscal year of 2018) and the rate is charged on the net taxable income of a company. The corporate tax rate will be reduced by 1% each year from 2019 onwards, until the corporate tax rate reduces to 25% in tax year 2023.

Advance tax needs to be paid in four quarterly instalments on or before 25 September, 25 December, 25 March, and 15 June in each financial year. Credit for tax paid in a tax year shall be allowed against tax liability of that year. However, for banking companies, such advance tax is payable on a monthly basis. The total tax liability is to be paid in full at the time of filing the return of income. Advance taxes and taxes withheld are adjustable against the tax payable with the return of income



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For resident companies and other specified taxpayers there is an alternate minimum tax on of 1.25% applies on the declared turnover, the minimum tax is applicable where taxpayers suffer losses or the tax yield on income is less than 1.25% of turnover. An alternative corporate tax of 17% of “accounting income” applies. The tax liability of a company is calculated as the higher of the alternative corporate tax or the total corporate tax payable (including the tax on net taxable income, minimum tax and final taxes).

For company’s capital gains are taxed at the normal corporate rate, gains earned from the sale of the capital assets which held in ownership for more then one year are taxed at reduced value at 75% of the net gains which is taxable. In tax year 2018 7 2019, gains on disposal of listed securities purchased on or after 1 July 2013 were subject to tax at 15% and gains on sales of listed securities purchased before 01 July 2013 are considered exempt.

For resident companies in Pakistan there is a withholding tax of 15% applicable on dividend payment in case if the resident company have an active tax filer status, for non active taxpayer the percentage of tax is 20% or unless the tax rate is reduced under a tax treaty. For royalties and branch remittance payment to nonresident will be subject to 15% withholding tax or unless at reduced tax rate under a specific tax treaty. For interest payment to nonresident company will be subject to withholding tax rate of 20%, unless the rate is reduced under a tax treaty. Interest payment to nonresident which do not have PE in Pakistan will subject to withholding tax at rate of 10% on the gross amount paid.

There are other percentage of withholding taxes applicable to companies which is 7% tax imposed on construction contracts and contracts for advertising services provided by TV satellite channels to a filer; for a nonflier the rate is 14%. A 10% withholding tax applies to advertising services provided by a nonresident media company, and a 5% tax on the payment of insurance premiums. These rates generally apply to income subject to the final taxation regime. For other payments to nonresidents, a general withholding tax of 20% applies.

For company’s capital authorization fee is levied at different rates, depending on the authorized capital and stamp duty will be payable on the issuance and transfer of shares at rates of 0.5% and 1.5%, accordingly, of the face value of the shares, subject to a minimum of PKR 1. If the shares are transferred to or through a central depository company (CDC), the duty is applied under the CDC’s rules.

The income law ordinance provides for two types of tax year first one is a normal tax year which ends on 30th June and a special tax year (i.e. a tax year other than the normal year that has been approved by the tax authorities). Resident company whose fiscal year ends between 1 January and 30 June, the tax return is due by 31 December and in all other cases, the return is due by 30 September following the end of the fiscal year. In case resident company fails to submit tax return on due timeline, there will be a penalty of 0.1% of the amount of the tax payable for each day of default. The minimum penalty is PKR 20,000 and the maximum are 50% of the amount of tax payable.



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In Pakistan sales tax is applicable on the supply and import of goods, and the rendering or provision of specified services. The sales tax is levied by federal government normally only on the supply of goods, whereas provincial governments levy sales tax on services rendered in their provinces. The federal government also levies sales tax in respect of services rendered in the Islamabad Capital Territory. All resident companies which provides supplies of taxable goods or providers of taxable services are required to register with the relevant tax authority. For goods, this is the Federal Board of Revenue; for services, registration is at the provincial level. For goods supplies the standard sales tax is 17% and for services provided rate is 13% to 16%, which depends on the province where the services provider is located or where the services are consumed. As per the sales tax act, sales tax return and payment should be filed on monthly basis.

Permanent Establishment (PE)

According to the Pakistan tax regulations, a permanent establishment is a place of business through which nonresident carries out its business wholly or partly, including the below as well:

- A PE can be a place of management, branch, office, factory or workshop, premises for soliciting orders, warehouse, permanent sales exhibition, or sales outlet, except a liaison office.
- An agriculture, pastoral, or forestry property.
- A mine, oil or gas well, quarry, or any other place of extraction of natural resources.
- A building site; a construction, assembly, or installation project; or supervisory activities connected with such site or project if such activity continued for more than 90 days within any 12-month period.
- The delivery of services, including consultancy services, by any person through employees or other personnel engaged by the person for that purpose.
- A person acting in Pakistan on behalf of the person, other than an agent of independent status (excluding a person acting exclusively/almost exclusively on behalf of such person) in the ordinary course of business.
- Any substantial equipment installed, or other asset or property capable of activity giving rise to income.
- A person who habitually implement his/her authority to complete contracts on behalf of another person or plays a principal role in execution of contacts that are concluded without any material variations and these contracts are:
 - i. in the name of the person
 - ii. for the transfer of the ownership of or for the granting of the right to use property owned by that enterprise or that the enterprise has the right to use, or
 - iii. for the provision of services by that person.
- A fixed place of business that is used or maintained by a person if the person or an associate of a person carries on business at that place or at another place in Pakistan and:



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- i. that place or other place constitutes a PE of the person or an associate of the person under this sub-clause, or
 - ii. business carried on by the person or an associate of the person at the same place or at more than one place constitutes complementary functions that are part of a cohesive business operation.
- The definition of a PE provided in a DTT will prevail in cases where a DTT is executed by Pakistan with the related country of origin of the PE.



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Employment Law and Payroll

In Pakistan employment labor matters are dealt according to article clause 18 of the Pakistan Constitution 1973 which allows every citizen with the right to enter upon any lawful profession, employment or occupation, and to conduct any lawful trade or business, the Industrial and Commercial Employment (Standing Orders) Ordinance was enacted in 1968 to address the relationship between employer and employee and the contract of employment. The Ordinance is applicable to all industrial and commercial establishments in whole country employing 20 or more workers and provides for security of employment. In the case of workers in other establishments, domestic servants, farm workers or casual labor engaged by contractors, their labor contracts are generally unwritten and can be enforced through the courts based on oral evidence or past practice.

Every employer in an industrial or commercial establishment is required to issue a formal appointment letter, employment contract at the time of employment of each worker. The obligatory contents of each labor contract, if written, are confined to the main terms and conditions of employment, namely nature and tenure of appointment, pay allowances and other fringe benefits admissible, terms and conditions of appointment. As a standard business practice most of the companies run the standard payroll once in a month and employers must provide the payslip breaking down the earnings and taxes withheld from employee and net pay to employees should be paid via bank transfer payment. If the employee moves to another firm, the employee's name need to be removed from the EOBI and other provincial social security if employees are registered.

Termination, Resignation or Retirement

In accordance with employment law, if the employment relationship has expired, the employer should pay the employee gratuity or provident fund amount. As a general business practice most of companies do not have provident fund in place for employees in that case employer have to pay gratuity amount which will be calculated based on year of service. The last monthly wage is considered as the basis of the calculation of the gratuity award. The employee is eligible for an award if he/she completed his probation period and his employment service is more than six months. If employer has provident fund for employees, then employer must pay related provided fund contributions accrued due his/her years of service along with prorated return earned on share of leaving employee.

If employment contract is terminated due to violation of terms of the employment contract or violation of land of the law, then in that case employee will not be entitled to gratuity or provident fund amount but employer has the responsibility to provide sufficient evidence or reasoning of the violation.



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Sample Payslip



PAYSLIP

Net Pay:

Employer	[REDACTED]	PKR 1,259,799.00
Employer address	[REDACTED]	
Country	Pakistan	
Pay Period	June 2020	

Employee name	[REDACTED]	Email	[REDACTED]
Employee ID	PAK-00001	Hire date	2017-04-15
Employee Position	Business Development Manager	Payment Method	Bank

Summary			
Pay currency	Entitlements	Deductions	Net pay
PKR	1,600,000.00	340,201.00	1,259,799.00

Details		
Entitlements	Amount	Currency
6210 - Basic salary	700,000.00	PKR
6214 - Commission	900,000.00	PKR

Deductions	Amount	Currency
2552 - Income Tax (employee)	340,201.00	PKR

Banking details					
Bank name	SWIFT	Beneficiary name	Acc. number	Account currency	Type
Standard Chartered Bank	SCBLPKXX	[REDACTED]	[REDACTED]	PKR	Primary



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Leaves

The statutory leaves for Pakistan have been summarized in the below table:

Leave Type	Eligibility	Compensation	Leave Duration
Annual Leave	<ul style="list-style-type: none">• Completion of probationary period• Employer approval required – 30 days advance notice• Completion of 12 Months service	Paid	14 calendar days
Sick Leave	<ul style="list-style-type: none">• Doctor's notice	Paid/Partially paid/Unpaid	16 days sick leave with half pay (8 days with full pay) in a year.
Casual Leave	<ul style="list-style-type: none">• Death of direct family member, Marriage, Examination or other reasons	Paid	10 Calendar Days
Childbirth Leave for Male Employees	<ul style="list-style-type: none">• Birth of a child	Paid	10 working days for government employees (Private Sector do not follow this practice)
Haji Leave	<ul style="list-style-type: none">• Performing Hajj	Paid	60 Days of leave
Maternity Leave	Completion of the probation period	Service Period: 1 Year	Maximum 3 months under Maternity Benefits Ordinance 1958 Maximum 4 months under Mines Maternity Benefits Act, 1941 (section 5)



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Immigration

Immigration policy in Pakistan is overseen by the Interior Minister of Pakistan through the Directorate General Passports. In Pakistan most of the immigrants are not eligible for citizenship or permanent residency, unless they are married to a Pakistani citizen or a Commonwealth citizen who has invested a minimum of PKR 5 million in the local economy. In Pakistan law and rules outlining the policy procedures of the immigration are managed by the below mentioned laws;

- Pakistan citizenship Act 1951. (PCA 1951)
- Naturalization Act 1926. (NA 1926)
- Pakistan citizenship Rules 1952. (PCR 1952)

In Pakistan Ministry of Interior approves the Pakistan Missions abroad to allow entry Work Visa to foreign expatriates based on the recommendations of Board of Investment for one-year (Multiple exit reentry) validity, extendable on yearly basis in Pakistan. Board of Investment will process work visa applications expeditiously within four weeks and recommended to the Ministry of Interior for authorization of visa to concerned Mission. Visa Committee under the Chairmanship of Secretary Board of Investment approves the work visa cases received in BOI through the companies working in Pakistan. For citizens of foreign countries who have a valid job offer and meet the requirements are eligible to apply for this visa.

In order to initiate an employment work visa process, the below list of documents needs to be submitted to relevant authorities for stamping the visa;

- Original passport - valid for the duration of the employment contract with a minimum of two consecutive blank pages
- Three color passport photographs.
- SECP registration letter of company or the incorporation certificate issued by SECP to the local sponsor.
- Contact Details of the Sponsor
- Undertaking on company letterhead/In case of CPEC/Government approved project, letter from concerned department /ministry
- Resume and degree of the applicant
- Covering letter on company's letter head
- Company profile
- Employment agreement attested by the COC
- FBR NTN certificate of the company
- Applicant is required to upload proof of legal residence, in case you are not present in your home country and are applying for visa from a third country, it's a mandatory requirement. The document can be uploaded in the supporting document type other



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