



*cutting through complexity*

# Pakistan Tax Profile

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# 1 Corporate Income Tax

## Corporate Income Tax

Income Tax – Corporate

## Tax Rate

33 percent for tax year 2015, 32 percent for tax year 2016, 31 percent for tax year 2017 and 30 percent for tax year 2018 and onwards (other than for a banking company for which the rate of tax is 35 percent). The exception to this is small companies, which are taxed at 25 percent.

## Residence

A company is considered to be resident in Pakistan if it is incorporated, formed by or under any law in force in Pakistan. Companies incorporated under foreign law are considered to be Pakistan resident if control and management of the affairs of the company is situated wholly in Pakistan at any time during the year. Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Pakistan source income.

## Compliance requirements

Assessment system – Self assessment. However, an assessment under self assessment scheme may be subject to tax audit and amendment by the tax authorities.

Filing due date

- For companies with an income year ending between 1 July and 31 December: 30 September following the end of the income year
- For companies with an income year ending between 1 January and 30 June: 31 December following the end of the income year

## International Withholding Tax Rates

Dividends paid to non-residents are subject to withholding tax of 12.5 percent. For dividends declared/distributed by a purchaser of a power project privatized by WAPDA (Water and Power Development Authority) or a company setup for power generation, the withholding tax rate on dividends is 7.5 percent. The withholding tax rate on dividend is 12.5 percent where the recipient is a filer of Pakistan tax return and 17.5% where the recipient is a non-filer.

Royalties and fees for technical service paid to non-residents (that have no permanent establishment in Pakistan) are subject to withholding tax of 15 percent.

Interest payments to non-residents (that have no permanent establishment in Pakistan) are subject to withholding tax of 10 percent.

Payments to non-residents (that have no permanent establishment in Pakistan) are subject to withholding tax, in the case of specified contracts at 6 percent, in the case of insurance & reinsurance premiums at 5 percent and in the case of advertisement services by media persons relaying from outside Pakistan at 10 percent.

Other payments to non-residents, for which a withholding tax rate is not specified in the Income Tax Ordinance, 2001, are subject to withholding tax of 20 percent.

The withholding tax rates may be reduced under the terms of applicable tax treaties.

Dividends distributed by a resident company are taxable at the rate of 12.5 percent.

Dividends paid by a non-resident company are taxable at the corporate tax rate in the hands of resident company.

Capital gains tax applies in Pakistan. However, the tax treatment of the capital gain depends on a range of factors including the industry and the holding period.

For companies which are in the banking industry in Pakistan, gain on the sale of shares and dividend are taxable at the rate of 35 percent.

Capital gain tax rates on securities are as follows:

Tax Year	Held <12 months	Held 12-24 months	Held 24 – 48 months
<b>2015</b>	12.5%	10%	-
<b>2016</b>	15%	12.5%	7.5%

Where the security is held for more than four (04) years, the capital gains tax rate is 0 percent.

The term "Securities" has been defined to mean 'share of a public company, voucher of Pakistan Telecommunication Corporation, Modaraba Certificate, an instrument of redeemable capital, debt securities and derivative products'.

Capital gains on capital assets other than securities is taxable at corporate tax rate, unless the capital asset has been held for more than twelve months, in which case 75 percent of the gain will be taxable.

### **Bonus shares**

Bonus shares issued by a company and received by a shareholder are to be treated as income and a tax rate of 5 percent is to be applied. In case of companies quoted on stock exchange, tax is to be applied on the value of the bonus shares determined on the basis of the day-end price on the first day of closure of the books, whereas in case of other companies, the value will be determined as per rules to be prescribed. Tax is to be collected at source by the company declaring the bonus shares and this shall also be considered as the final discharge of a person's tax liability on such income.

### **Tax Losses**

The tax loss rules in Pakistan differ depending on the type of revenue stream associated with the loss incurred.

- Losses associated with "income from business" can be offset against any other type of income during a tax year. To the extent the loss cannot be offset, it may be carried forward and offset against "income from business" (and not other tax types) for up to six years.
- Losses representing unabsorbed depreciation and amortization are allowed to be carried forward until completely set-off.
- Losses associated with "income from other sources" can be set off against any other type of income during a tax year. However, the amount that cannot be offset is not allowed to be carried forward.
- Losses associated with "capital gains – other than securities" are not allowed to be set off against any other income type but can be carried forward and offset against capital gains income in future periods for up to six years.
- Losses associated with "capital gains on the sale of securities" are allowed to be set off against other capital gains on the sale of securities. However, the amount that cannot be offset is not allowed to be carried forward.
- Foreign losses can be carried forward for up six years but can only be offset against foreign income.

There is no loss carry-back provision.

### **Tax Consolidation / Group relief**

Pakistan has a tax consolidation regime whereby a holding company and its wholly-owned subsidiary companies may opt to be taxed as one fiscal unit, subject to specified conditions being met.

In addition, group relief is also available in certain circumstances. Under the regime, a company may surrender its assessed loss (excluding capital losses) for the tax year to its holding company, another subsidiary of its holding company or its own subsidiary.

<b>Transfer of shares</b>	Stamp duty at the rate of 1.5 percent of face value (par value) will apply to the transfer of shares. Capital Value Tax (CVT) at the rate of 0.01 percent of the purchase value of shares of a public listed company will also apply. The CVT will be collected by the respective Stock Exchange.
<b>Transfer of assets</b>	<p>Land and buildings - stamp duty, capital value tax, property tax, town tax etc. at varying rates (according to prescribed tables/values) may apply to the transfer.</p> <p>Other tangible assets - the transfer of tangible assets is treated as disposal and resulting gain / loss on disposal of such assets may have a tax impact.</p> <p>Intangible assets – the transfer of intangible assets is treated as disposal and resulting gain / loss on disposal of such assets may have a tax impact.</p> <p>Other assets – the transfer of other assets is treated as a disposal and any resulting gain or loss on disposal of such assets may have a tax impact.</p>
<b>Controlled Foreign Corporation Rules</b>	There is no specific CFC regime in Pakistan. However, where the tax authority is of the opinion that profits being retained with an offshore subsidiary are without justification or commercial reasoning, they may seek to deem profits on the resident holding company.
<b>Transfer Pricing</b>	<p>Pakistan tax law contains transfer pricing provisions. Documentation is not required by law; however it may be required during a tax audit.</p> <p>There are no provisions in law for advance pricing agreements. However, the law contains rules for a mutual agreement procedure (MAP). A MAP will be relevant where a reference is received from the Competent Authority of a country outside Pakistan, under an agreement with that country, regarding any action taken by any income-tax authority in Pakistan.</p>
<b>Thin Capitalisation</b>	<p>Pakistan has a thin capitalisation regime. These rules apply where a foreign-controlled resident company (including a branch of a foreign company operating in Pakistan) has a foreign debt-to-foreign equity ratio in excess of 3:1 at any time during a tax year.</p> <p>However, thin capitalization rules do not apply to the following:</p> <ul style="list-style-type: none"> <li>▪ A foreign controlled resident company that is a financial institution or a banking company.</li> <li>▪ Where the recipient of profit on foreign debt is subject to tax in Pakistan at corporate tax rate.</li> </ul>

<b>General Anti-avoidance</b>	Pakistan tax law includes anti-tax avoidance rules under which transactions not reflecting substance, having no substantial economic effect or transactions entered into as part of a tax avoidance scheme may be disregarded or re-characterised. Further, tax law requires that all transactions between associates should be at arm's length.
<b>Anti-treaty shopping</b>	No specific anti-treaty shopping provisions.
<b>Other specific anti-avoidance rules</b>	Specific anti avoidance rules apply for salary paid by private companies, unexplained income or assets, security transactions, payment of royalty, management fee, interest by permanent establishment to head office or another permanent establishment of head office (except reimbursements).
<b>Rulings</b>	Advance rulings may be obtained by non-residents with the exception of permanent establishments of a non-resident.
<b>Intellectual Property Incentives</b>	A person is allowed an amortisation deduction under income tax law in a tax year for the cost of the person's intangibles.
<b>R&amp;D Incentives</b>	100 percent deduction is allowed for research and development expenditure incurred in Pakistan but is restricted to the extent of research which has been undertaken in Pakistan.
<b>Other incentives</b>	Non-residents operating through a branch in Pakistan can claim a deduction for head office expenses (including regional head office costs) which should be in the nature of executive and general administration expenses. Such expenses can be remitted to the head office without payment of withholding taxes, subject to approval from the State Bank of Pakistan.

Other tax incentives include:

- 25 percent initial allowance (tax depreciation / capital allowances) on plant and machinery
- 90 percent first year allowance (tax depreciation / capital allowances) for specified companies
- 90 percent accelerated tax depreciation for alternative energy projects
- Tax credit of 10 – 20 percent of the investment made for balancing, modernization and replacement
- Tax credit of 100 percent of tax payable for five years to newly established industrial undertakings
- Tax credit of 100 percent of tax payable for five years attributable to expansion projects or new projects by an existing industrial undertaking
- Tax credit of upto 10% of tax payable for new manufacturing entities for employment generated subject to specified conditions.

Tax exemptions, subject to meeting specified criteria, may be available in following sectors:

- Power generation
- Information Technology
- Agriculture

#### **Hybrid Instruments**

No special rules for hybrid instruments.

#### **Hybrid entities**

No special rules for hybrid entities.

#### **Special tax regimes for specific industries or sectors**

Special tax regimes apply in the following industries:

- Insurance sector – Fourth Schedule to the Income Tax Ordinance, 2001
- Exploration and production / extraction of Petroleum / Mineral Deposits – Fifth Schedule to the Income Tax Ordinance, 2001
- Banking – Seventh Schedule to the Income Tax Ordinance, 2001



## **Related Business Factors**

The forms of legal entities commonly used for conducting business in Pakistan are a body corporate and a company.

The minimum capital requirement for a Private limited company is Rs.20, for a Public unlisted limited company is Rs.30 and for a Public listed limited company is Rs.70

There are no other significant local requirements for establishing a legal entity - even 100 percent foreign equity is allowed.

Foreign exchange dealings are regulated under the Foreign Exchange Regulation Act, 1947. Foreign currencies are made available to persons / companies doing business in Pakistan for all purposes under rules which have been clearly defined by the Central Bank i.e. State Bank of Pakistan (SBP). There are no restrictions on the availability of foreign currency for imports (except for import of banned items or for imports from Israel). Business houses can buy foreign currencies for all other commercial transactions like payments for export claims, commission payment to foreign agents on exports, royalties, franchise / technical fees and dividends software licenses / maintenance / support fees, advertisement abroad in newspapers and magazines, business travel etc. under the rules laid down by SBP.

Foreign investment in Pakistan enjoys full protection and repatriation facilities. The Foreign Private Investment (Promotion and Protection) Act, 1976 provides guarantees for repatriation of foreign investment to the extent of original investment, profits earned on such investment, and appreciation of capital.

## 2 Income Tax Treaties for the Avoidance of Double Taxation

### In Force

Austria	Indonesia	Nepal	Sweden
Azerbaijan	Iran	Netherlands	Switzerland
Bahrain	Ireland	Nigeria	Syria
Bangladesh	Italy	Norway	Tajikistan
Belarus	Japan	Oman	Thailand
Belgium	Jordan	Philippines	Tunisia
Bosnia and Herzegovina	Kazakhstan	Poland	Turkey
Brunei	Korea (Republic of)	Portugal	Turkmenistan
Canada	Kuwait	Qatar	Ukraine
China	Kyrgyz Republic	Romania	United Arab Emirates
Denmark	Lebanon	Saudi Arabia	United Kingdom
Egypt	Libya	Serbia	United States
Finland	Malaysia	Singapore	Uzbekistan
France	Malta	South Africa	Vietnam
Germany	Mauritius	Spain	Yemen
Hungary	Morocco	Sri Lanka	

A multi-lateral treaty between the South Asian Association for Regional Cooperation countries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka has also been agreed and came into force with respect to Pakistan during 2011. That treaty largely provides additional provisions for cooperation between the countries in the administration of taxes such as exchange of information, assistance in the collection of unpaid taxes etc.

### Negotiated, not yet in force at time of publication

Czech Republic

Source: IBFD

### 3 Indirect Tax (e.g. VAT/GST)

**Indirect Tax**

Sales Tax

**Standard Rate**

The standard rate of sales tax is 17 percent. However, this may vary (up, down or zero) in specified cases. Certain goods are exempt from sales tax.

**Further information**

For more detailed indirect tax information across various countries, refer to:

[KPMG's 2015 Asia Pacific Indirect Tax Guide](#)

## 4 Personal Taxation

### Income Tax

Income Tax - Individuals

### Top Rate

Personal tax rates differ between salaried taxpayers and non-salaried taxpayers.

The top tax rate for salaried taxpayers is 30 percent and applies to income in excess of PKR 7,000,000.

For non-salaried taxpayers, the top tax rate is 35 percent and applies to income in excess of PKR 6,000,000.

### Social Security

The following are payable by employers:

- Social Security – 6 percent of minimum wage of insurable employees
- Employees Old Age Benefit (EOAB) – 5 percent of minimum wage of insurable employees

For EOAB, employees are also liable to pay Rs. 120 per month, being one percent of the minimum wage, in addition to the contribution made by the employer. Usually, employers deduct this amount from the salary and pay it over to the EOAB Institution on behalf of their employees together with the employer's contribution.

### International Social Security Agreements

None.

### Further information

For more detailed personal taxation information across various countries, refer to:

[KPMG's Thinking Beyond Borders](#)

## 5 Other Taxes

### Customs duty

Goods imported into Pakistan are liable to customs duties at the prescribed rates. However, zero-rating and concessionary rates of customs duty are generally applicable for industrial raw materials, semi-finished goods and capital goods (particularly if these are not being manufactured in Pakistan), machinery for power projects, oil and gas projects etc.

### Excise duty

Federal Excise Duty (FED) is levied on specific goods imported or manufactured. Specified services provided and rendered in Pakistan are also taxable at prescribed rates. Generally, FED is charged on the value or retail price basis. Provincial Sales Tax is applicable on specified services in the provinces i.e. Sindh, Punjab, Khyber Pakhtunkhwa and Balochistan as well as Islamabad Capital Territory. Zero percent FED rate is applicable for exported goods or specified goods. Items subject to FED include (amongst others); edible oils, aerated waters and concentrates, tobacco and cigarettes, cement, transportation vehicles, etc.

### Stamp duty

Stamp duty is imposed on instruments and documents as are mentioned in Schedule appended to the Stamp Act, 1899. Stamp duty is a provincial levy which is payable on every instrument executed, drawn or presented in Pakistan as listed in the said Schedule at such rates given against each item. For instruments executed outside Pakistan chargeable to stamp duty under this Act, the instrument must be stamped with stamp duty within 3 months after it is first received in Pakistan.

### Property tax

There is a provincial tax levied on the value of property, with the rates varying between provinces.

### Inheritance / gift tax

There is no inheritance or gift tax in Pakistan.

### Capital value tax

Capital Value Tax (CVT) is charged on the purchase of Modaraba certificates, registered instruments of redeemable capital including shares of listed companies and specified immoveable property. CVT is a tax on the capital value of specified assets and is payable on the acquisition of such asset by every individual, association of persons, firm or company. The rate of CVT is 0.02 percent of the purchase value of the Modaraba certificates and instrument of redeemable capital and 0.01 percent on shares of listed companies.

The CVT rates vary for the real estate sector depending on the nature and location of the property.

## Professional tax

Professional tax is a provincial levy on trade, professions, callings and employment generally payable on the basis of paid-up capital. The rates differ between provinces.

## 6 Free Trade Agreements

### In force

- China
- Sri Lanka
- Indonesia
- Malaysia (Closer Economic Partnership Agreement)

### In negotiation

- FTA between Pakistan and the Gulf countries
- FTA between Pakistan and Jordan
- FTA between Pakistan and Nepal
- FTA between Pakistan and Bangladesh
- FTA between Pakistan and Singapore
- FTA between Pakistan and Korea
- FTA between Pakistan and Thailand
- FTA between Pakistan and Turkey

# 7 Tax Authority

## Tax Authorities

Federal Board of Revenue (FBR)

[www.fbr.gov.pk](http://www.fbr.gov.pk)

## Tax audit activity

Returns may be selected for tax audit by the FBR on the basis of random or parametric selection through computer balloting. In addition to above, the Commissioner Inland Revenue having jurisdiction over the case also has independent powers to select a case for tax audit.

The tax authority's approach to tax audits is largely a manual approach including detailed consideration of key documents.

A typical tax audit commences with a letter requesting provision of supplementary analysis or information. Taxpayers are advised to contact their tax advisor immediately when a tax audit commences or any correspondence is received from the tax authority. Audits into any given return generally last one year. Key focus areas for the tax authority in tax audits conducted in recent years have included:

- Allocation of expenses between income under normal tax regime and final tax regime and under various heads of income.
- Bad Debts / Provision for bad debts
- Provision for obsolete / slow moving stocks
- Inadmissible expenses like donation, penalty etc.
- Re-characterization
- Documentation requirements
- Interest free loans / advances
- Exchange Losses
- Payments from which tax was not withheld at source
- Transfer pricing



## Appeals

Appellate Forum	Appeal by	Time of Appeal	Decision in Appeals	Disposal of appeal
Commissioner (Appeals)	Any person dissatisfied with any order passed by the Commissioner or a taxation officer, except an assessment order under section 122C of the Income Tax Ordinance, 2001.	Within 30 days of the service of notice of demand or order.	The Commissioner (Appeals) may make an order to confirm, modify or annul the assessment order.	Not later than 120 days from the date of filing of appeal or within an extended period of 60 days for reasons to be recorded in writing by the Commissioner (Appeals).
Appellate Tribunal	The tax payer or the Commissioner objecting to an order passed by the Commissioner (Appeals).	Within 60 days of the date of service of order of the Commissioner (Appeals).	The Tribunal may affirm, modify or annul the assessment order or remand the case to the Commissioner or Commissioner (Appeals) or may issue consequential directions. It may also proceed ex parte to decide the appeal where the taxpayer or his representative does not appear for hearing.	Within six months from filing of appeal before the Tribunal.
High Court	The aggrieved person or the Commissioner may refer questions of law which arises out of orders of the Tribunal.	Within 90 days of the communication of the order of the Appellate Tribunal.	Decide the question of law.	
Supreme Court	The aggrieved person or the Commissioner.		Decide the question of law.	

## Tax governance

Federal Tax Ombudsman office for redressing grievances of taxpayers regarding maladministration.

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