Pakistan Tax Profile

Produced in conjunction with the KPMG Asia Pacific Tax Centre

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Contents

1 Corporate Income Tax 1
2 Income Tax Treaties for the Avoidance of Double Taxation 7
3 Indirect Tax (e.g. VAT/GST) 9
4 Personal Taxation 10
5 Other Taxes 11
6 Free Trade Agreements 12
7 Tax Authority 13
## 1 Corporate Income Tax

<table>
<thead>
<tr>
<th><strong>Corporate Income Tax</strong></th>
<th>Income Tax - Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax Rate</strong></td>
<td>35 percent. The exception to this is small companies, which are taxed at 25 percent.</td>
</tr>
<tr>
<td><strong>Residence</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Compliance requirements</strong></td>
<td>Assessment system – Self assessment. However, an assessment under self assessment scheme may be subject to tax audit and amendment.</td>
</tr>
</tbody>
</table>
| **Filing due date**               | For companies with tax year ending between 1 July and 31 December: 30 September following the end of tax year  
                                  | For companies with tax year ending between 1 January and 30 June: 31 December following the end of tax year |
| **International Withholding Tax Rates** | Dividends paid to non-residents are subject to withholding tax of 10 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.  
                                  | Royalties and fees for technical service paid to non-residents 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.  
                                  | Other payments to non-residents, for which a withholding tax rate is not specified in the Income Tax Ordinance, 2001 (the Ordinance), is subject to withholding tax of 20 percent.  
                                  | The withholding tax rates may be reduced under the terms of applicable tax treaties. |
**Holding rules**

Dividends distributed by a resident company are taxable at the rate of 10 percent.

Dividends paid by a non-resident company are taxable at the corporate tax rate of 35 percent 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, a gain on the sale of shares of listed companies (disposed of after one year or more from acquisition), shall be taxed at 10 percent. All other capital gains for companies in the banking industry shall be taxed at 35 percent.

Capital gain tax rates on securities vary according to the status of the taxpayer deriving such gain, as outlined below.

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Insurance Company</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Held &lt;6 months</td>
<td>Held 6-12 months</td>
</tr>
<tr>
<td>2012</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>2013</td>
<td>12.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>2014</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>2015</td>
<td>17.5%</td>
<td>9%</td>
</tr>
<tr>
<td>2016</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Where the security is held for more than twelve months, the capital gains tax rate is 0 percent.

Capital gains on capital assets other than securities shall be taxable at 35 percent, unless the capital asset has been held for more than twelve months, in which case 75 percent of the gain will be taxable.
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 subsidiary.

Transfer of shares

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.
Transfer of assets

Stamp duty, capital value tax, property tax, town tax etc. at varying rates (according to prescribed tables/values) may apply to the transfer of land and buildings.

Other tangible assets - Transfer of tangible assets is treated as disposal and resulting gain / loss on disposal of such assets may have tax impact.

Intangible assets - Transfer of intangible assets is treated as disposal and resulting gain / loss on disposal of such assets may have tax impact.

Other assets - 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.

CFC rules

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.

Transfer Pricing

Pakistan tax law contains transfer pricing provisions. Documentation is not required by law; however it may be required during a tax audit.

There are no provisions in law for advance pricing agreements. However, the law contains rules for mutual agreement procedure where a reference is received from the Competent Authority of a country outside Pakistan under an agreement with that country with regard to any action taken by any income-tax authority in Pakistan.

Thin Capitalisation

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.

However, thin capitalization rules do not apply to the following:

- A foreign controlled resident company that is a financial institution or a banking company.
- Where the recipient of profit on foreign debt is subject to tax in Pakistan at corporate tax rate.

General Anti-avoidance

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.

Anti-treaty shopping

No specific anti-treaty shopping provisions.
Other specific anti-avoidance rules

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).

Rulings

Advance rulings may be obtained by non-residents with the exception of permanent establishments of a non-resident.

Intellectual Property Incentives

A person is allowed an amortisation deduction under income tax law in a tax year for the cost of the person’s intangibles.

R&D Incentives

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.

Other incentives

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:

- 50 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 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 of Petroleum – Fifth Schedule to the Income Tax Ordinance, 2001
- Banking – Seventh Schedule to the Income Tax Ordinance, 2001

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

- Power generation
- Information Technology
- Agriculture
### Income Tax Treaties for the Avoidance of Double Taxation

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

None

*Source: IBFD*
3 Indirect Tax (e.g. VAT/GST)

Indirect Tax

Sales Tax

Standard Rate

The standard rate of sales tax is 16 percent. However, this may vary (up, down or zero) in specified cases. Certain goods are exempt from sales tax.

Further information

Link to KPMG’s VAT/GST essentials
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 20 percent and applies to income in excess of RKR 2,500,000.
For non-salaried taxpayers, the top tax rate is 25 percent and applies to income in excess of RKR 2,500,000.

Social Security

The following are payable by employers:

- Social Security – 7 percent of salary of insurable employees
- Employees Old Age Benefit (EOAB) – 5 percent of salary of insurable employees

For EOAB, employees are also liable to pay Rs. 80 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.
## 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, at prescribed rates. Generally, FED is charged on the value or retail price basis. Zero percent FED rate is applicable for exported goods or specified goods. Items typically subject to FED include (amongst others); edible oils, aerated waters and concentrates, tobacco and cigarettes, cement, lubricants and fuel oils and transportation vehicles.

### Stamp duty
Stamp duty is imposed on instruments and documents (and for matters connected and incidental thereto). Stamp duty is a provincial levy which is payable on every instrument executed, drawn or presented in Pakistan, every document presented or filed in the various courts, check or promissory note negotiated in Pakistan (but drawn outside of Pakistan) and every instrument executed outside Pakistan and received in Pakistan that relates to any property situated 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 or registered instruments of redeemable capital including shares. CVT is a tax on the capital value of specified assets and is payable on the acquisition of an 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.

CVT is also imposed on the real estate sector at various rates 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
- None

Concluded / signed (pending domestic ratification)
- China Pakistan Free Trade Agreement (FTA) signed in July 2010.

In negotiation
- FTA between Pakistan and the Gulf countries
- FTA between Pakistan and Jordan
- FTA between Pakistan and Indonesia
- FTA between Pakistan and Morocco
7 Tax Authority

**Tax Authorities**

Federal Board of Revenue  
[www.fbr.gov.pk](http://www.fbr.gov.pk)

**Tax audit activity**

Returns may be selected for tax audit by FBR on the basis of random or parametric selection through computer balloting.

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

<table>
<thead>
<tr>
<th>Appeals Forum</th>
<th>Appeal by</th>
<th>Time of Appeal</th>
<th>Decision in Appeals</th>
<th>Disposal of appeal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissioner (Appeals)</td>
<td>Any person dissatisfied with any order passed by Commissioner or taxation officer except an assessment order under section 122C of the Ordinance.</td>
<td>Within 30 days of the service of notice of demand or order.</td>
<td>The Commissioner (Appeals) may make an order to confirm, modify or annul the assessment order.</td>
<td>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).</td>
</tr>
<tr>
<td>Appellate Tribunal</td>
<td>The tax payer or Commissioner objecting to an order passed by the Commissioner (Appeals).</td>
<td>Within 60 days of the date of service of order of the Commissioner (Appeals).</td>
<td>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 tax payer or his representative does not appear for hearing.</td>
<td>Within six months from filing of appeal before the Tribunal.</td>
</tr>
<tr>
<td>High Court</td>
<td>The aggrieved person or Commissioner may refer questions of law which arises out of order of the Tribunal.</td>
<td>Within 90 days of the communication of the order of the Appellate Tribunal.</td>
<td>Decide the question of law.</td>
<td></td>
</tr>
<tr>
<td>Supreme Court</td>
<td>The aggrieved person or Commissioner</td>
<td></td>
<td>Decide the question of law.</td>
<td></td>
</tr>
</tbody>
</table>

### Tax governance

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

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