



GLOBAL  
EMPLOYER  
GUIDE

**PAKISTAN**





## Basic Country Facts

### Full Name

- The Islamic Republic of Pakistan

### Capital

- Islamabad

### Main Languages

- Urdu
- English
- Punjabi
- Pashto
- Sindhi
- Balochi

### Population

- 212.2 million

### Monetary Unit

- Pakistani Rupee

### Internet Domain

- .pk

### International Dialing Code

- +92

### Currency

- Pakistani Rupee



# STATUTORY LABOR REQUIREMENTS

## Probation Period

- In the public sector, the probationary period is generally between 1 and 2 years.
- In private sector, this probationary period is usually three to six months.

## Annual Leave

- An employee is entitled to 14 calendar days paid annual leave, after completion of 12 months of continuous service.
- A worker is paid his daily wages while he is on annual leave.

## Public Holidays

- Kashmir Solidarity Day (5th February)
- Pakistan Day (23rd March)
- Labor Day (1st May)
- Eid al-Fitr
- Eid al-Adha
- Independence Day of Pakistan (14th August)
- Ashura
- Prophet's Birthday (28th to 29th October)
- Quaid-e-Azam's Birthday (25th December)

## Maternity Leave

- Mothers are entitled to 180 days of paid maternity leave on the birth of first baby

## Paternity Leave

- Fathers are entitled to paid paternity leave of 3 months



### Sick Leave

- Every employee is entitled to 10 days' casual leave with full pay and a further 16 days of sick or medical leave with 50% of pay.
- Casual leave is granted upon certain situations such as sudden illness.
- Sick leave requires a medical certificate.

### Work Hours

- According to the law, normal working hours per day are 8-9 hours and these should not be more than 48 hours per week.
- By including the lunch and prayer time in hours of work, working hours should not be greater than 9 hours a day.

### Overtime

- Extra pay for overtime has to be paid to the worker, who works for more than nine hours in any day or for more than 48 hours in any week.
- Extra pay is given at twice the rate of an employee's ordinary salary.

### Notice Period

- The West Pakistan Industrial and Commercial Employment (Standing Orders) Ordinance, 1968 states that upon terminating the employment of a permanent workman, the employee must be provided with one month's notice or the payment of one month's wages in lieu of notice.

### Severance

- In accordance with the provisions of Standing Orders Ordinance, a worker whose employment has been terminated for any reason other than misconduct is entitled to a "severance pay or gratuity" which is equivalent to 30 days' wages for every completed year of service or any part thereof in excess of 6 months (e.g., five years and 8 months is counted as 6 years).
- An employer may substitute a provident fund (type of pension) for gratuity.

### 13th Month

- 13th month pay is not mandatory in Pakistan
- However, businesses with 20 employees or more who post a profit are required to share their profit by paying a bonus to employees with at least 90 days of consecutive service.
- Depending on the wages of the employees and the amount of the profit, anywhere from 15% to 30% of the total annual profit must be distributed among workers.



## Income Tax

- Residents are taxed on their Pakistan and foreign-source income.
- Determination of taxable income of an individual varies according to the tax residential status of the individual in Pakistan during the tax year (1 July through 30 June).
- Total worldwide income of a resident is subject to tax in Pakistan except where particular income is not to be taxed in Pakistan under an Agreement for Avoidance of Double Taxation.
- A non-resident individual is taxed only on Pakistan-source income, including income received or deemed to be received in Pakistan or deemed to accrue or arise in Pakistan.

The following tax rates apply where income of the individual from salary exceeds 75% of taxable income:

Taxable Income	Rate (%)
Where the taxable income does not exceed PKR 600,000.	0%
Where the taxable income exceeds PKR 600,000 but does not exceed PKR 1,200,000.	5% of the amount exceeding PKR 600,000
Where the taxable income exceeds PKR 1,200,000 but does not exceed PKR 1,800,000.	PKR 30,000 + 10% of the amount exceeding PKR 1,200,000
Where the taxable income exceeds PKR 1,800,000 but does not exceed PKR 2,500,000.	PKR 90,000 + 15% of the amount exceeding PKR 1,800,000.

Where the taxable income exceeds PKR 2,500,000 but does not exceed PKR 3,500,000.	PKR 195,000 + 17.5% of the amount exceeding PKR 2,500,000.
Where the taxable income exceeds PKR 3,500,000 but does not exceed PKR 5,000,000.	PKR 370,000 + 20% of the amount exceeding PKR 3,500,000.
Where the taxable income exceeds PKR 5,000,000 but does not exceed PKR 8,000,000.	PKR 670,000 + 22.5% of the amount exceeding PKR 5,000,000.
Where the taxable income exceeds PKR 8,000,000 but does not exceed PKR 12,000,000.	PKR 1,345,000 + 25% of the amount exceeding PKR 8,000,000.
Where the taxable income exceeds PKR 12,000,000 but does not exceed PKR 30,000,000.	PKR 2,345,000 + 27.5% of the amount exceeding PKR 12,000,000.
Where the taxable income exceeds PKR 30,000,000 but does not exceed PKR 50,000,000.	PKR 7,295,000 + 30% of the amount exceeding PKR 30,000,000.
Where the taxable income exceeds PKR 50,000,000 but does not exceed PKR 75,000,000.	PKR 13,295,000 + 32.5% of the amount exceeding PKR 50,000,000.
Where the taxable income exceeds PKR 75,000,000.	PKR 21,420,000 + 35% of the amount exceeding PKR 75,000,000.





The following tax rates are applicable in other cases (for individuals an association of persons):

<b>Taxable Income</b>	<b>Rate (%)</b>
Where the taxable income does not exceed PKR 400,000	0%
Where the taxable income exceeds PKR 400,000 but does not exceed PKR 600,000	5% of the amount exceeding PKR 400,000
Where the taxable income exceeds PKR 600,000 but does not exceed PKR 1,200,000	PKR 10,000 + 10% of the amount exceeding PKR 600,000
Where the taxable income exceeds PKR 1,200,000 but does not exceed PKR 2,400,000	PKR 70,000 + 15% of the amount exceeding PKR 1,200,000
Where the taxable income exceeds PKR 2,400,000 but does not exceed PKR 3,000,000	PKR 250,000 + 20% of the amount exceeding PKR 2,400,000
Where the taxable income exceeds PKR 3,000,000 but does not exceed PKR 4,000,000	PKR 370,000 + 25% of the amount exceeding PKR 3,000,000
Where the taxable income exceeds PKR 4,000,000 but does not exceed PKR 6,000,000	PKR 620,000 + 30% of the amount exceeding PKR 4,000,000
Where the taxable income exceeds PKR 6,000,000	PKR 1,220,000 + 35% of the amount exceeding PKR 6,000,000

## Social Security

- Pakistan offers benefits to employees for death, disability, injury, medical expenses and pensions, as well as academic scholarships for workers' children.
- Employees earning less than PKR17,500 a month are generally covered by these benefits, with employers making contributions to the government at the following rates

Benefits	Employer Contribution
<b>Employees' Old Age Benefits</b>	PKR780 per month
<b>Provincial Employees' Social Security (Sindh)</b>	6% of monthly salary of up to PKR16,200*
<b>Workers' Children (Education)</b>	PKR100 annually

- Employees are also required to contribute PKR130 per month for Employees' Old Age Benefits.
- Pakistan has not entered into any social security totalization agreements.



# Deductible Expenses

## Employment Expenses

- Medical allowance/expenses: Reimbursement of expenses on medical treatment or hospitalization or both received by an employee is exempt from tax.
- Medical allowance of up to 10% of basic salary is exempt if the facility of reimbursement of medical expenses is not available to the employee.
- Any special allowance (other than entertainment/conveyance allowance) received in connection with performance of employment duties.

## Personal Deductions

- Special straight deduction is available for Zakat paid under Zakat and Usher Ordinance.
- A rebate at the average rate of tax is allowed on donations made to any approved non-profit organization on the lower of donation value and 30% of the individual's taxable income.
- Special deductions/tax credits are available for interest paid on house loans, investments in specified shares, payment of insurance premium, etc.
- Donations made to the Supreme Court of Pakistan - Diamer Bhasha & Mohmand Dam Fund are eligible for straight deduction in the hands of donors.

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\* Zakat, an Islamic wealth tax on specified assets, is levied at a rate of 2.5%. This tax applies only to Muslim citizens of Pakistan.

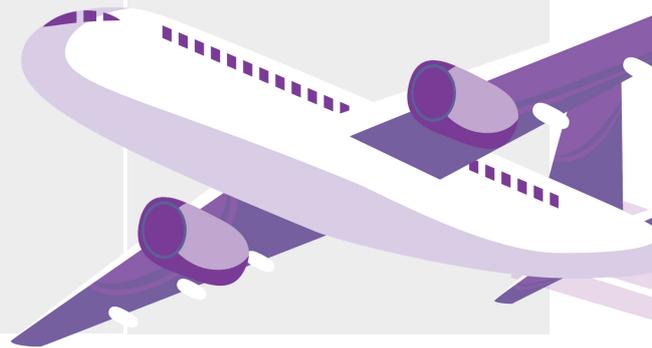


# Immigration

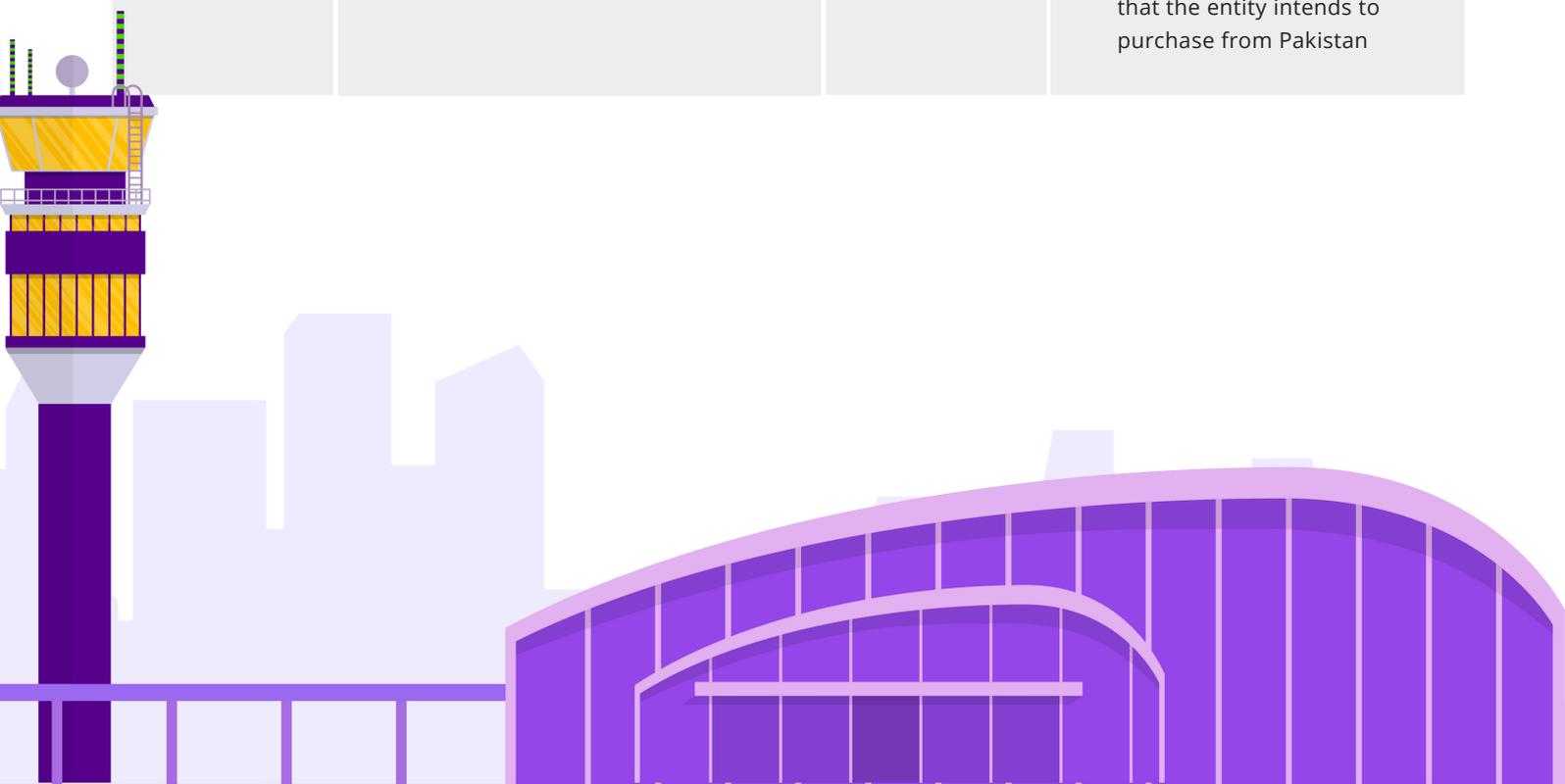
- To promote domestic and foreign investment, enhance Pakistan's international competitiveness, and contribute to economic and social development, Pakistan has a liberal visa policy.
- A work visa allows the foreign national to exercise employment in Pakistan in the entity for which the visa is granted.
- Such employment can be exercised for the period for which the visa is valid. A renewal of the visa allows the foreign national to remain employed.
- The work visa does not entitle the foreign national to work for another employer without submitting a new application and obtaining permission for employment with the other employer.
- The visa of a foreign national found to be engaged in activities other than employment with the approved employer is canceled and the foreign national is deported.
- No written policy allows a foreign national to begin work in Pakistan while his or her application for a work visa is in process.
- However, as a result of the liberal policy followed by Pakistan, no serious exception is taken for beginning work before the issuance of a work visa if the foreign national has a valid business visa and if his or her application for a work visa is ultimately approved and business visa conversion instructions are issued by the MOI.
- Business Visa is granted for the following activities
  - Attend business meetings
  - Negotiate and sign contracts
  - Attend exhibitions, displays, conferences, symposiums, workshops and similar events
  - Conduct training of short duration
  - Deliver lectures, make presentations and engage in similar activities
  - Provide technical services of short duration, including removal of faults during the warranty period of equipment supplied by foreign suppliers, installation of software, troubleshooting to correct faults in software, software training and transfer of technical know-how
  - Visiting project sites to obtain information, technical specifications or material required for executing a contract for the supply of goods or providing of technical or consultancy services to an entity in Pakistan
  - Setting up of a branch office or a local company for doing business in Pakistan
  - Hiring of local personnel for utilizing their services in a Pakistan project or a Pakistan entity
  - Inspection of the goods that the entity intends to purchase from Pakistan



Type of Visa	Documentation	Validity	Eligibility
<p><b>Work Visa</b></p>	<ul style="list-style-type: none"> <li>• Properly completed application signed by the person authorized by the employer.</li> <li>• Employment contract signed by both parties or job letter stating the term, designation and salary.</li> <li>• Latest passport-size photographs of employee.</li> <li>• Photocopy of passport of employee, including pages with the picture and particulars of the passport holder. A copy of the visa page is also required if the person is already in Pakistan. The visa page is not required if the person is not in Pakistan.</li> <li>• Local and international address of the applicant.</li> <li>• Qualification.</li> <li>• Professional experience.</li> <li>• Certificate of incorporation or certificate of registration, if the entity is a local company or a subsidiary of a nonresident company in Pakistan, or a permission letter issued by the BOI to a foreign company for opening the branch office where the applicant will be employed.</li> <li>• National tax number of entity for which the employment will be exercised.</li> <li>• Power of attorney in favor of the person or firm authorized to represent the entity with respect to the handling of the visa applications.</li> <li>• Company's profile.</li> <li>• Processing fee of USD100 (or equivalent in PKR) per applicant for a one-year work visa, or USD200 (or equivalent in PKR) for a two-year work visa, payable</li> </ul>	<ul style="list-style-type: none"> <li>• 1 year (can be extended)</li> </ul>	<ul style="list-style-type: none"> <li>• Work Visa can be granted to foreign individuals with an employment contract</li> </ul>



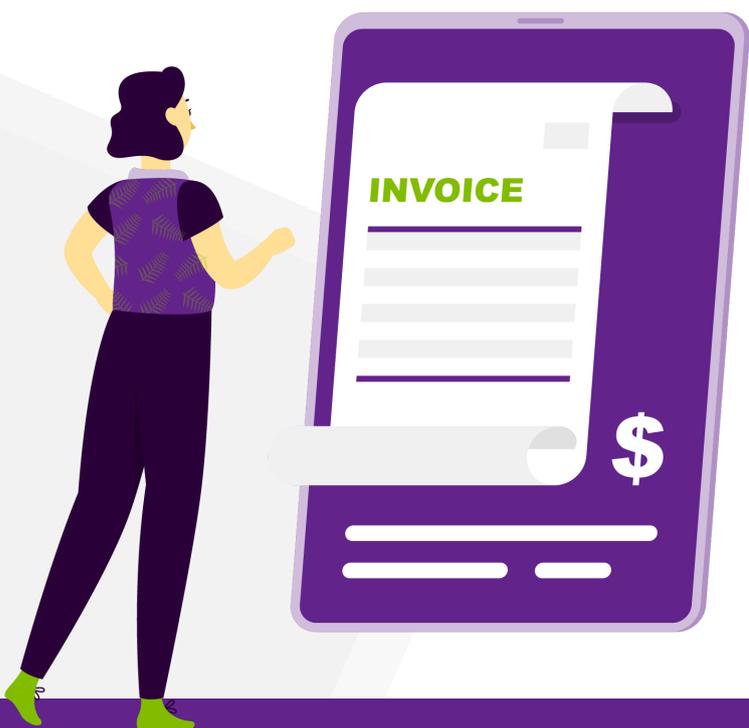
Type of Visa	Documentation	Validity	Eligibility
<b>Business Visa</b>	<ul style="list-style-type: none"> <li>• Two sets of the properly completed application signed by the applicant.</li> <li>• Two latest passport-size photographs.</li> <li>• Two sets of photocopies of the visitor's passport, including pages with the picture and particulars of the passport holder, and the visa page.</li> <li>• Invitation letter from the employer.</li> <li>• Documents showing substantial investment, exports or imports during the preceding year.</li> <li>• Business documents, such as a letter from the Chamber of Commerce and Industry (CCI) or Registrar of Companies, partnership deed or articles of association, or, in special cases only, a copy of CCI membership documents.</li> </ul>	<ul style="list-style-type: none"> <li>• 5 years</li> </ul>	<ul style="list-style-type: none"> <li>• Attend business meetings</li> <li>• Negotiate and sign contracts</li> <li>• Attend exhibitions, displays, conferences, symposiums, workshops and similar events</li> <li>• Conduct training of short duration</li> <li>• Deliver lectures, make presentations and engage in similar activities</li> <li>• Provide technical services of short duration</li> <li>• Visiting project sites to obtain information</li> <li>• Setting up of a branch office or a local company for doing business in Pakistan</li> <li>• Hiring of local personnel for utilizing their services in a Pakistan project or a Pakistan entity</li> <li>• Inspection of the goods that the entity intends to purchase from Pakistan</li> </ul>



## Value Added Tax (VAT)

- VAT (locally termed as 'sales tax') is ordinarily levied at 17% on the value of goods, unless specifically exempt, after allowing related input credits.
- Export of goods is subject to sales tax at 0%.
- Sales tax on services is levied by all four provinces, Islamabad Capital Territory, Gilgit-Baltistan, Azad Jammu, and Kashmir at rates ranging from 13% to 16%.

VAT	
Standard Rate	17%
VAT on services	13% to 16%
Zero Rate	0%
Exempt	0%



# Withholding Tax

## Dividends

- Withholding tax is levied on dividends at 15% in the case of filers of an income tax return in Pakistan (i.e. taxpayers whose names appear on the active taxpayers list issued by the Federal Board of Revenue from time to time, or that hold a taxpayer’s card), and at 20% in the case of non-filers unless the rate is reduced under a tax treaty

## Interest

- A 20% withholding tax is levied on interest paid to a nonresident, unless the rate is reduced under a tax treaty
- Interest paid to a nonresident that does not have a PE in Pakistan is subject to withholding tax of 10% of the gross amount paid.

## Royalties

- Royalties paid to a nonresident are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty

## Technical Service Fee

- Technical Service fees paid to a nonresident are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty

## Branch Remittance Tax

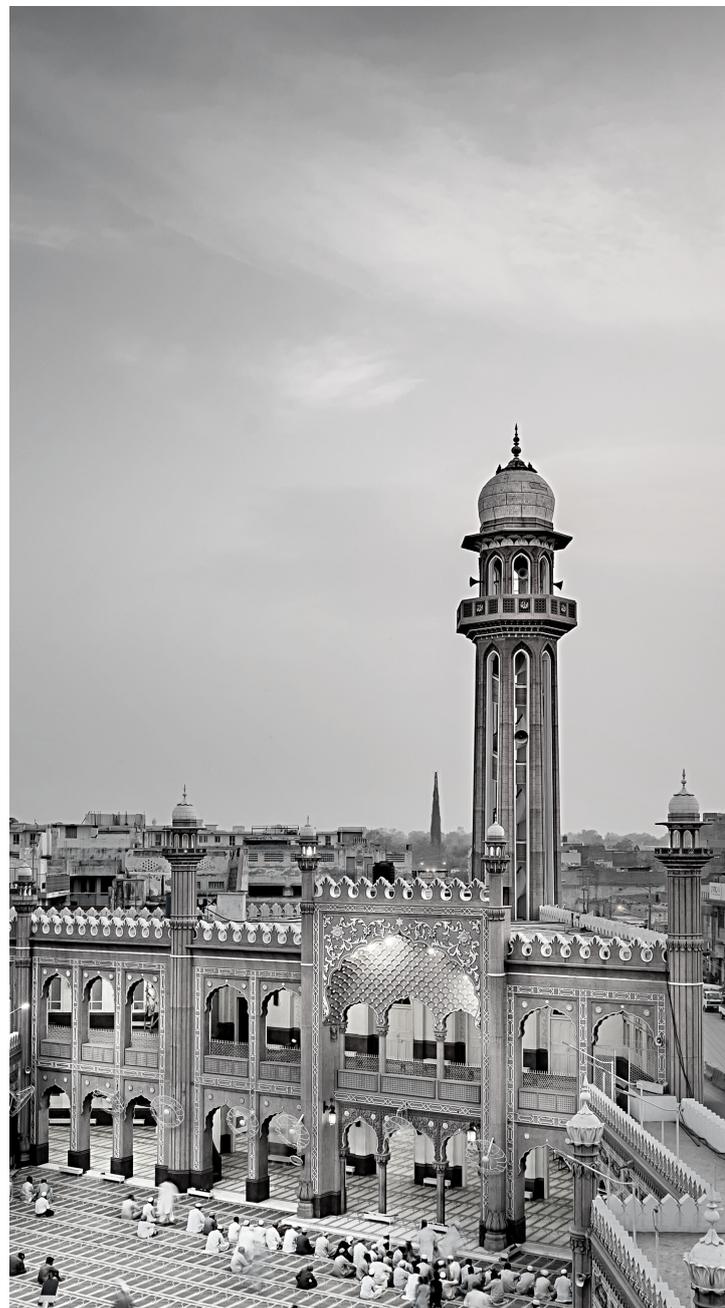
- The remittance of profits to a head office abroad is treated as dividends, attracting a 15% withholding tax on remittance

WHT	
<b>Dividends</b>	<ul style="list-style-type: none"> <li>• 15% (for filers of an income tax return in Pakistan)</li> <li>• 20% (for non-filers)</li> </ul>
<b>Interest</b>	<ul style="list-style-type: none"> <li>• 20% (Interest Paid to a Nonresident)</li> <li>• 10% (Interest paid to a nonresident that does not have PE in Pakistan)</li> </ul>
<b>Royalties</b>	<ul style="list-style-type: none"> <li>• 15% (Royalties paid to a nonresident)</li> </ul>
<b>Technical Service Fees</b>	<ul style="list-style-type: none"> <li>• 15% (Technical Service Fees paid to a nonresident)</li> </ul>
<b>Branch Remittance Tax</b>	<ul style="list-style-type: none"> <li>• 15%</li> </ul>



## Termination

- Termination of an employment contract may be either termination simpliciter, which is termination on grounds other than misconduct after a notice (S.O. 12) or termination on account of misconduct (S.O. 15).
- Notice of termination, for termination simpliciter, is mandatory for permanent employees.
- A notice of one month must be served before severing the employment relationship or payment of one month's wages in lieu of notice may be provided (Section 12.1).
- Termination can also be categorized in the following three categories.
  - The first type is "automatic termination" where an employment contract is terminated automatically in circumstances such as death of an employee or completion of the project/end of contract for which a worker was hired.
  - Second is termination of employment by the employee through resignation. An employee may resign from employment to avail some better work opportunity or when the work circumstances are not supportive and there is material breach of contract on the part of employer.
  - Third is the termination initiated by an employer, which may be based on fair or unfair grounds.
- In accordance with the provisions of Standing Orders Ordinance, a worker whose employment has been terminated for any reason other than misconduct is entitled to a "severance pay or gratuity" which is equivalent to 30 days' wages for every completed year of service or any part thereof in excess of 6 months (e.g., five years and 8 months is counted as 6 years).



## Statutory Benefits

- These are mandatory benefits as postulated by law
- These include probationary period, annual leave, public holidays, sick leave, maternity leave, paternity leave, overtime pay, notice period, and severance pay
- Statutory benefits also include social security benefits

### Statutory Benefits

Probationary Period

Annual Leave

Public Holidays

Maternity Leave

Paternity Leave

Sick Leave

Overtime Pay

Notice Period

Severance Pay

Social Security Benefits

## Payments and Invoicing

- The tax year in Pakistan for all individuals is from 1 July to 30 June.
- Individuals must obtain special permission from the Federal Board of Revenue in Pakistan to select a different accounting year-end.
- All individuals must file their income tax returns by 30 September following the tax year-end.
- Non-salaried individuals must also file their income tax returns by 30 September following the tax year-end.
- Employers must withhold taxes from the salaries of their employees.
- Individuals other than employees having taxable income of PKR1 million or more must pay advance tax in four equal installments on 15 September, 15 December, 15 March and 15 June.
- Tax due after adjustment for both advance tax payments and tax paid at source must be paid with the tax return.



## Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Pakistan ranked 108th in the World in 2019 in terms of ease of doing business.



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