



PUNJAB BOARD OF
INVESTMENT & TRADE



Investment
Incentives

Contents

1

Construction Sector

2

Auto Sector

3

Food Processing Sector

4

Tourism Sector

5

Power Sector

6

Alternative Resources of Energy

7

Information Technology Sector

8

Leather Industry

9

Special Economic Zones

10

Export Processing Zones

11

Incentives by Customs
& Income Tax

Investment Incentives

A Glimpse of Investment Incentives
available in Punjab

CONSTRUCTION SECTOR

- I. A Construction Industry Development Board to be set up
- II. Construction Sector has been given the status of Industry
- III. Introduction of Fixed Tax in the construction sector
- IV. Investment in Construction Projects under "Naya Pakistan Housing Authority", 90% fixed tax will be waived and only Pay 10% tax
- V. Withholding Tax on Construction Industry lifted from all sectors, except Steel and Cement
- VI. No Capital Gain Tax for family house sale
- VII. Fixed Tax Rates for Construction Sector – Charges per square foot or square yard.
- VIII. Reduction of Sales Tax for construction industry in coordination with the provinces
- IX. Rate of Tax Reduced Proportionate to the increase in the Valuation Table
- X. CGT holding period for constructed property reduced from 4 years to 3 years (as was the case prior to 2019)
- XI. CGT holding period for real estate / plots may remain 8 years, however the rate of tax may be significantly reduced on sliding scale from fourth year onward
- XII. The investment made by any person on purchase of land and constructing any structure (house, commercial building etcetera) will be exempted from provisions of Section 111 of the Income Tax Ordinance 2001, (Applies for tax on the person concealed income)
- XIII No questions to be asked about the source of income for investments in the Construction Industry this year.
- XIV. In addition, besides, construction of any structure on already owned land within this period or first purchase of newly constructed property within this period will also be exempted from the same clause of income tax.
- XV Rs 30 billion Subsidy to Naya Pakistan Housing Projects for stimulating construction activities

AUTO SECTOR

The Government of Pakistan announced Automotive Development Policy (ADP) 2016-21.

Tax incentive for new investments in Pakistan defined under two categories :

Category A - Greenfield Investment-

- i) One-off duty-free import of plant and machinery for setting up an assembly and manufacturing facility has been allowed.
- ii) The government has allowed the import of 100 vehicles of the same variants in the form of completely built units (CBUs) at 50% of the prevailing duty for test marketing after the ground-breaking of the project.
- iii) Concessional rate of custom duty @ 10 % on non- localized parts and @ 25% on localized parts for a period of five years for the manufacturing of Cars and LCVs For existing players, the duty on import of localized parts has been reduced to 45% from the current fiscal year.

Category B - Brownfield Investment-(i) Imports of non-localized parts at 10 % rate of customs duty and localized parts at 25% duty for a period of three years for the manufacturing of Cars.

In the current policy, the existing three car makers will not be entitled to the benefits that are being offered to the new investors provided the policy was aimed at enhancing consumer welfare and boosting competition in the country besides attracting new automotive players.

The greater localization of the auto parts had been ensured in the new policy and if the new entrants fail to do achieving targets, they would be penalized.

FOOD PROCESSING SECTOR

1. Low rate of customs duties on import of capital goods used in Dairy Sector.
- 1.1. Plant, machinery and other capital goods used for establishing dairy farms can be imported on concessional rates of customs duty.
2. Low rate of customs duties on import of capital goods used in Poultry Sector.
- 2.1. The plants, machinery and other capital goods used for establishing poultry farms can be imported on concessional rates of customs duty.
3. Low duties on capital goods used for handling, processing and storage of Vegetable and Fruits etc.
- 3.1. Machinery and equipment used for cleaning, sorting or grading can be imported on concessional rate of Custom duty.
4. Exemptions on Income Tax for the food processing and beverages sector.
- 4.1. To incentivize the exporters of vegetables, fruits meat preparation and poultry, duty drawback is paid.
5. Low rates of customs duty on import of capital goods used by Food Processing Industry.
- 5.1. Machinery, equipment and other capital goods for miscellaneous Agro-Based Industries like milk processing, fruit, vegetable or flowers grading, picking or processing etc. can be imported on low rate custom duty.

6. 0% customs duty on capital goods for setting up Fruit Processing in specific areas.6.1. Custom free import is allowed on plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan and Malakand Division, which are fruit growing areas of the country.
7. Concessional rate of customs duties on import of ingredients for preparation of Value Added Chicken Products (VACP).
- 7.1. Apart from availability of locally produce inputs, the import of inputs for manufacturing value added chicken products is also allowed on concessional rates of customs duty.
8. Low rate of customs duties on import of seafood processing machinery and equipment.
- 8.1. Concessional rates of customs duty on import of Fish or Shrimp farming and Seafood processing machinery and equipment

TOURISM SECTOR

1 Refinance facility under the Export Finance Scheme for Consultancy Services

The Government of Pakistan has accorded "deemed export" status to the foreign earnings remitted into Pakistan against consultancy services in various service sectors of economy such as medical, pharmaceutical, engineering, accountancy, management, financial services, wholesale, distribution and retail trade, transportation, storage and communication, tele-communication services, educational services, real estate development, hotel and tourism/tourism related services, technical testing facilities and consultancy services etc. The foreign earnings against all such consultancy services would now henceforth be treated as export proceeds and all consultancy services mentioned above would qualify for export finance facility under Part I of Export Finance Scheme for a period not exceeding 180 days at the rates prescribed under the Scheme.

2 Set off of losses of companies operating hotels

If a company operating hotels sustains a loss in Pakistan for any tax year shall be entitled to have the amount of the loss set off against the company's income in Pakistan

3 Withholding Rate of tax on hotel services reduced to 3%

Sub-section 1: Every prescribed person making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person—

- (i) 3% of the gross amount payable, in the cases of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in clause (133) of Part I of the Second Schedule, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services, 1 [warehousing services, services rendered by asset management companies, data services provided under licence issued by the Pakistan Telecommunication Authority

4 Concessional customs duty for import of plant, machinery and equipment by the manufacturing industry, tourism related projects, hotels and relocated industrial plants

Explanation

Under S.R.O 455(I)/2004 and S.R.O.575(I)/2006, amended vide S.R.O. 554(I) /2008; the federal government announced the concessional customs duty for import of plant, machinery and equipment by the manufacturing industry, tourism related projects, hotels and relocated industrial plants. The Federal Government is pleased to exempt, -

- i) plant, machinery and equipment, not manufactured locally, imported by the manufacturing industries, in excess of five per cent customs duty leviable under the First Schedule to the Customs Act, 1969 (IV of 1969);
- ii) plant, machinery and equipment, not manufactured locally, imported by tourism, hotels and tourism related projects, in excess of five per cent customs duty leviable under the First Schedule to the Customs Act, 1969 (IV of 1969);
- iii) relocated complete industrial plants from customs duty as is in excess of five percent leviable under the First Schedule to the Customs Act, 1969 (IV of 1969).

POWER SECTOR

Financial Regime

- Permission for power generation companies to issue corporate registered bonds.
- Permission to issue shares at discounted prices to enable venture capitalists to be provided higher rates of return proportionate to the risk.
- Permission for foreign banks to underwrite the issue of shares and bonds by the private power companies to the extent allowed under the laws of Pakistan.
- Non-residents are allowed to purchase securities issued by Pakistani companies without the State Bank of Pakistan's permissions and subject to the prescribed rules and regulations.
- Abolition of 5% limit on investment of equity in associated undertakings.
- Independent rating agencies are operating in Pakistan to facilitate investors in making informed decisions about the risk and profitability of the project company's Bonds/TFCs.

Fiscal Regime

- Customs duty at the rate of 5% on the import of plant and equipment not manufactured locally.
- No levy of sales tax on such plant, machinery and equipment, as the same will be used in production of taxable electricity.
- Exemption is already available from income tax including turnover rate tax and withholding tax on imports; provided that no exemption of income tax on oil-fired power plants.
- Repatriation of equity along with dividends is freely allowed, subject to the prescribed rules and regulations.
- Parties may raise local and foreign finance in accordance with regulations applicable to industry in general. GOP approval may be required in accordance with such regulations.
- Maximum indigenization shall be promoted in accordance with GOP policy.
- Non-Muslims and Non-residents shall be exempted from payment of Zakat on dividends paid by the company.
- The above incentives will be equally applicable to private, public-private and public sector projects.

ALTERNATE SOURCES OF ENERGY

- Concessions of Customs Duty on Local Manufacturing of LED Lights
- Customs duty on imports of parts of LED lights is being reduced to 5%.
- Extension in Relief on Import of Solar Panels
- Import of solar panels and related components are exempted from customs duty regardless of local manufacturing of their substitutes till 30th June.
- Incentivizing Import of Items used in Renewable Sources of Energy
- As per existing laws, listed items used in renewable sources of technology are allowed duty free import. More generic descriptions and classifications are included in this list which include items like led bulbs/lights, ogrid portable solar home system etc.

INCENTIVES UNDER ALTERNATIVE RENEWABLE ENERGY POLICY 2019

- Exemption from corporate income tax
- Exemption from import duties
- Repatriation of dividends and disinvestment proceeds²
- 100% foreign equity permitted
- Foreign currency accounts permitted
- Protection against change in law
- Robust market-tested contractual framework
- Protection against expropriation
- International dispute resolution
- Project land made available by the Province

WIND POWER PROJECT DEVELOPMENT IN PAKISTAN

Government of Pakistan's "Policy for Development of Renewable Energy for Power Generation" offers the following incentives for setting up Wind IPPs:

- Wind Risk (risk of variability of wind speed).
- Guaranteed Electricity Purchase.
- Grid provision is the responsibility of the purchaser
- Protection against political risk.
- Attractive Tariff (Cost plus 17% ROE), indexed to inflation & exchange rate variation (Rupee / Dollar).
- Euro / Dollar Parity allowed.
- Carbon Credits available.
- No Import Duties on Equipment.
- Exemption on Income Tax / Withholding Tax and Sales Tax.
- Repatriation of Equity along with dividends freely allowed.
- Permission to issue corporate registered bonds.

Proposed Areas of Collaboration for Investment in Pakistan

- a. Direct Foreign Investment (DFI): Participation of companies in development of ARE Power Projects through DFI. Government of Pakistan shall provide full facilitation through AEDB.
- b. Financing / Lending for Commercial Wind Power Projects: Banks and financing institutions may finance the commercial projects through debt and equity sharing.
- c. Export Credit: To promote equipment Governments may give export credit to its OEMs.
- d. Capacity Building/Technical Assistance: Support in capacity building and technical assistance of public entities /organizations of Pakistan associated with Renewable energy sector.
- e. Collaboration in Wind Turbine Manufacturing: Collaboration with Pakistani engineering industries for manufacturing/assembling of ARE equipment/components in Pakistan.

INFORMATION TECHNOLOGY SECTOR

- 1 Income Tax exemption on export of a wide range of IT solutions and services
- 1.1. Income derives from exports of computer software or IT services or IT enabled services is exempted from tax till 30th June, 2025
- 2 Income Tax exemption for Start-ups registered with Pakistan Software Export Board
- 2.1. Profit and gains derived by a Start-up offering technology driven products or services, certified by the Pakistan Software Export Board (PSEB) are exempt from Income Tax for three years.
- 3 Sales Tax exemption on export of IT services
- 3.1. Exports of IT services and IT enabled services are exempt from Sales Tax
- 4 Up to 100% foreign ownership of IT & ITeS companies
- 4.1. As per Pakistan's Investment Policy 2013, all sectors and activities are open for foreign investment unless specifically prohibited or restricted for reasons of national security and public safety.
- 5 Up to 100% repatriation of profits for foreign IT & ITeS investors
- 5.1 As per Pakistan's Investment Policy 2013, foreign investors can repatriate profits, dividends, or any other funds in the currency of the country from which the investment was originated. Legal Source
- 6 35% of export earnings can be retained in foreign currency for making payments abroad
Exporters of software are allowed to retain up to 35% of their export earnings in Special Exporters Foreign Currency accounts, which can be used for operational expenses and overseas payments. Is
- 7 Tax holiday for venture capital funds till 2024.
- 8 Provision of IT enabled office space in Software Technology Parks (STPs)
To help the IT industry of the country to meet its immediate goals of increased FDI, technology transfer, increased exports, technology diffusion, increased employment, and human resource development, so far, thirteen (13) STPs have been established by PSEB to provide IT enabled office space (equipped with quality ICT infrastructure and arrangements of backup power).

LEATHER INDUSTRY

The Federal government of Pakistan announced various tax incentives and business friendly steps for the Leather Industry of Pakistan.

Tax Incentives

- Exemption of 3% Custom Duty
 - On Tanned Hides and Skins
- Exemption of Additional 2% Custom Duty
 - All Plant and Machinery Used in Manufactured or Production of Goods
- Reduction on Regulatory Duty on Import of Goods
 - 5% to 35% on Leather Decreasing Agents
 - 50% on Garments
 - 35% on Footwear material and Composition or Uppers of Leather
 - 5% Drawback on Local taxes & Levies on Finished Leather
- Increase in Threshold of Taxable Income
 - 20% on Bags and Trunks
 - 15% on Footwear Outer Soles

SPECIAL ECONOMIC ZONES IN PUNJAB

1. SEZ is commonly used as a generic global term for referring to any modern economic zone where business and trade laws differ from rest of the country. The reasons for development of global SEZs were to provide enabling framework for enhancing trade, investment, jobs and industrial development. Pursuant to similar objectives, the Government of Pakistan promulgated the Special Economic Zones Act, 2012 on September 12, 2012.
2. Special Economic Zones Act 2012 was promulgated to encourage industrial infrastructure in the country. The purpose was to facilitate domestic and foreign investors to invest in manufacturing sector of Pakistan offering them special exemptions and incentive leading to reduced cost of doing business with efficient infrastructure.
3. Benefits under the SEZ Rules:

Benefits for developers:

- a) one time exemption from all custom-duties and taxes on plant and machinery imported into Pakistan except the items listed under Chapter 87 of the Pakistan Customs Tariff, for the setting up of an SEZ subject to verification by the BOI; and
- (b) exemption from all taxes on income accruable in relation to the development and operation of the SEZ for a period of five years, starting from the date of signing of the development agreement.

Benefits for zone enterprises:

- (a) one time exemption from custom-duties and taxes on import of plant and machinery into SEZ except items

listed under Chapter 87 of the Pakistan Customs Tariff, for installation in that zone enterprise subject to verification by the BOI; and

- (b) exemption from all taxes on income for enterprises commencing commercial production for 10 Years from the start of production date in the SEZs.

Additional Benefits:

BOA may grant additional benefits to a particular category of SEZs, zone enterprise, regions or sectors. Benefits under SEZ Act will not limit other benefits.

► Income Tax Exemption on Investment in Greenfield Industrial Undertakings:

In Income Tax relief measures, period of exemption to investment in Green Field Industrial undertakings shall be extended from 30th June, 2019 to 30th June 2023

EXPORT PROCESSING ZONES:

- 1 Duty-free import of machinery, equipment and materials
- 1.1 The Investors are allowed duty and tax free import of all goods for setting up and operations of their units including machinery, equipment and materials. Moreover, similar facility of getting duty and tax-free goods from tariff areas of Pakistan is also available.
- 2 Duty-free vehicles allowed under certain conditions.
- 2.1 Businesses in the zone are allowed to import vehicles without payment of duties & taxes in accordance with the entitlement.
- 3 Reduced rate of Income Tax @ 1%
- 3.2 The normal Income Tax Regime is not applicable to zone businesses instead, presumptive Income Tax @1% is charged by EPZA, which is the final discharge of the liability.
- 4 Freedom from national import regulations
- 4.1 Imports by businesses in the zone do not face general restrictions which are applicable to tariff areas of Pakistan under the Import Policy Order, except for specified conditions.
- 5 Exchange control regulations of Pakistan not applicable
- 5.1 The businesses established in zones have been exempted from regulations relating to Foreign Exchange, which allows businesses to undertake foreign currency transactions with ease and flexibility.
- 6 Domestic market available to the extent of 20% or higher in specified cases.
- 6.1 Goods produced in the Zone can be sold in to domestic market of Pakistan to the extent of 20% of their production or higher in specified cases.
- 7 Obsolete/old machines can be sold in domestic market of Pakistan
- 7.1 The Export Processing Zone Authority permits sale of obsolete/old machines in domestic market of Pakistan after payment of applicable duties & taxes
- 8 EPZ units allowed to supply goods to Custom manufacturing bonds in Tariff area
- 8.1 To create additional commercial opportunities for the Investors in Zones, the facility of sub-contracting by units based in tariff area to the units in the Export Processing Zone, is allowed.
- 9 'B' Grade goods/used materials can be sold in domestic market.
- 9.1 Manufactured goods of lower quality as well different types of used materials etc. can be sold in tariff area of Pakistan on payment of duty/taxes.
- 10 Developed land on competitive rates for 30 years
- 10.1 EPZA offers developed land on competitive rates for 30 years to zone enterprises

INVESTMENT INCENTIVES BY CUSTOMS & INCOME TAX UNDER FINANCE ACT 2019-20

1. Customs duty on industrial inputs covered under (53 tariff lines) is being either removed or reduced and Additional Customs Duty on industrial inputs covered under 22 tariff lines is being removed. This measure will be implemented with effect from 31st March, 2019.
2. Regulatory Duty on industrial inputs covered under 30 tariff lines is being either removed or reduced.
3. Regulatory duty on smuggling prone items like Tyres, Padlocks, Groundnuts, Food / Chocolate reparations, Floor Coverings, Vacuum flasks falling under 24 tariff lines is being reduced.
4. Regulatory duty is being removed on input materials (approximately 200 tariff lines) imported under RO 655(i)/2006 dated 05.08.2006 that are used for manufacturing of auto parts by local vendors.
5. Collection of duty and taxes on mobile phones is being rationalized through collection of all duty/taxes on uniform slabs based on C&F values at the fixed rates.
6. Regulatory duty leviable on export of lead, lead products, scrap of lead and copper scrap is being removed in respect of exports made under DTRE / Manufacturing Bond Schemes.
7. In order to facilitate exporters, especially SMEs, significant changes are being made in the Export-Oriented Schemes with a view to improve competitiveness of the export sector.

8. Incentives to banks for advancing loans to Micro & Small Enterprises Low-cost housing & Agricultural finance
- 8.1 Majority of the manpower in Pakistan is employed in Agriculture, Micro, Small & Medium Enterprises. Low-cost housing is also a priority area. It is proposed to provide incentive to the Banks to provide loans to these sectors and to low cost housing schemes to boost economic activities and generate employment. Banks' income arising from loans to these sectors in addition to loans in 2018 shall be taxed at 20% instead of 35% and shall be exempt from super tax.
9. Removal of Advance Income Tax on cash withdrawal and cash denominated instruments from banks for filers
- 9.1 To provide relief to filers advance tax on cash withdrawal and sale of banking instruments has been totally abolished.
10. Enabling purchase of immovable property and vehicles by non-resident Pakistanis
- 10.1 It is proposed to allow Non-resident Pakistanis holding international passports can purchase any motor vehicle and immovable property without filing requirements.
11. Number of Withholding statements to be reduced from 12 to 2
- 11.1 For furthering ease of doing business the frequency of monthly withholding statements has been done away with. Now businesses shall have to file biannual statements instead.
12. Removal of Advance Tax on cash withdrawal from foreign remittance fed accounts
- 12.1 To incentivize foreign remittance by overseas Pakistanis, advance tax on cash withdrawal on accounts solely fed by foreign remittance has been exempted.
13. Abolition of Super Tax on non-banking sector
- 13.1 For Banks the rate of super tax at 4% as was previously has been maintained till tax year 2021 whereas for non-banking persons it is intended to abolish this tax from tax year 2020.
14. Reduction of tax on inter-corporate dividend in case of companies availing group relief
- 14.1 For companies availing group relief, tax on inter-corporate dividend has been reduced to the extent of percentage of shareholding the recipient of dividend has in the distributing company.
15. Abolition of tax on undistributed profits
- 15.1 To promote capital formation, the tax on undistributed profits is being abolished.
16. Abolition of withholding tax on members of stock exchange
- 16.1 The tax on members of stock exchange in lieu of their commission has been abolished. Now their income from commission is to be taxed under normal law.
17. Allowance of carry forward of losses to persons dealing in shares and stocks
- 17.1 The amendment intends to allow carry forward of losses from securities sustained in a year to subsequent three years.
18. Incentives for industrial undertakings set up for manufacturing of equipment used in generation of renewable energy
- 18.1 Through this amendment exemption has been granted for five years to industrial undertakings set up for manufacturing of equipment used in generation of renewable energy if such undertaking is set up between 1st March 2019 and 30th June 2023.
19. Tax concession for teams participating in national & international sports tournament
- 19.1 The advance tax at the time of auction of franchise rights, from participating teams in national and international sports tournament organized by any Sports Board or entity established by the Government is being abolished
20. Provisional assessment of offshore assets
- 20.1 Through this amendment provisional assessment may be made in case of an offshore asset not declared earlier if such asset is discovered by the Commissioner or any department or agency of the federal or provincial government



Punjab Board of Investment & Trade

23 Aikman Road GOR-I, Lahore (Pakistan)

Phone: +92 (042) 9920 5201-06, Fax: +92 (042) 99205171

E-mail: info@pbit.gop.pk, www.pbit.gop.pk