



International
Labour
Organization



TRAINING MANUAL

Business Registration & Compliance in Pakistan



FOREWORD

This manual has been designed to provide a detailed overview of different business structures in Pakistan and their legal and regulatory frameworks. It covers the advantages and disadvantages of each structure, their registration process, taxation and accounting considerations, other legal compliance and case studies of successful businesses in Pakistan.

Whether you are an entrepreneur looking to start a new business, a student studying business, or a professional seeking to expand your knowledge of business structures in Pakistan, this manual is a valuable resource. We hope that this manual will help you make informed decisions about the right business structure for your venture, and contribute to the growth and development of the business sector in Pakistan.

OUTCOMES:

The training aims to provide participants with an understanding of different business structures in Pakistan and help them choose the appropriate structure for their business. By the end of the training, participants should be able to:

- Identify the characteristics, advantages, and disadvantages of different business structures
- Understand the legal and regulatory framework for each structure
- Know the registration and legal requirements for each structure
- Understand taxation and accounting considerations for each structure
- Analyze case studies of successful businesses for each structure
- Develop the ability to work through scenarios and draft agreements for each structure
- Compare and contrast different business structures based on various criteria
- Have access to additional resources for further learning and information

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INTRODUCTION TO BUSINESS STRUCTURES

IN THIS MODULE:

AT A GLANCE OVERVIEW:

1. Overview of business structures in Pakistan
2. Factors to consider when choosing a legal structure of your business
3. Legal and regulatory Framework

- ✓ Expert Tips
- ✓ Good To Know Notes
- ✓ Illustrations
- ✓ Important Notes

AT A GLANCE

Starting a business in Pakistan demands a thoughtful choice of structure, impacting how it's managed, taxed, and regulated. Entrepreneurs navigate options like sole proprietorship, partnership, limited liability partnership, private limited company, and public limited company, each tailored to specific needs.

Careful consideration of liability, tax implications, ownership, compliance, and future plans is crucial.

The chosen legal structure significantly shapes the business's credibility and perception. For example, public limited companies exude stability, attracting investors, while private limited companies offer flexibility and confidentiality. Likewise, smaller enterprises, like sole proprietorships or partnerships, may seem less established but can thrive with the right strategy.

Pakistan's legal and regulatory landscape includes the Companies Act, 2017, Partnership Act, 1932 and Limited Liability Partnership Act, 2017. Businesses must also adhere to tax, labor, environmental, and intellectual property laws, alongside industry-specific regulations. Compliance ensures legal and financial well-being in this complex business environment.

INTRODUCTION:

Pakistan is a rapidly developing country with a growing economy that offers a range of business opportunities for entrepreneurs and investors. When starting a business in Pakistan, one of the key decisions that need to be made is the selection of an appropriate business structure. The right structure can have a significant impact on the success of the business, as it determines how the company will be organized, managed, taxed, and regulated.

This manual provides an overview of the different business structures available in Pakistan, including sole proprietorship, partnership, limited liability partnership, private limited company, and public limited company. It also highlights the importance of choosing the right structure and the legal and regulatory framework that governs each structure.

The manual aims to provide useful information and insights for entrepreneurs and investors who are planning to start a business in Pakistan or are considering changing their business structure. The information provided in this training manual is based on the current legal and regulatory framework in Pakistan, as of the knowledge cut-off date of March 31, 2024.

OVERVIEW OF BUSINESS STRUCTURES

There are various types of business structures available in Pakistan, each with its own advantages and features. The choice of business structure depends on several factors such as the size of the business, the number of owners, the liability of the owners, tax implications, and regulatory requirements. The most common business structures in Pakistan are:



Sole Proprietorship: A sole proprietorship is the simplest and most common form of business structure in Pakistan. It is a business that is owned and operated by one individual who is solely responsible for the management and finances of the business. The owner has unlimited liability for the debts and obligations of the business. This means that the owner's personal assets can be used to pay off any debts incurred by the business.



Partnership: A partnership is a business structure in which two or more people share ownership of the business. The partners share the profits, losses, and responsibilities of the business. There are two types of partnerships in Pakistan, general partnership and limited liability partnership. In a general partnership, all partners have unlimited liability for the debts and obligations of the business. In a limited liability partnership, the partners' liability is limited to their investment in the business.



Limited Liability Partnership: A Limited Liability Partnership (LLP) in Pakistan is a business arrangement where partners have limited liability, restricted to their investment in the business. It is a body corporate having perpetual succession. Unlike a general partnership, LLP shields partners from personal responsibility for the business's debts and obligations. This structure encourages collaboration with shared profits and responsibilities while mitigating individual financial risks for each partner.



Private Limited Company (PLC): A Private Limited Company has a corporate business structure wherein the management and ownership are separate and the ownership is divided into shares. An PLC is a separate legal entity from its owners, which means that the owners have limited liability for the debts and obligations of the business. A single member PLC is called a SMC- Private Limited company. Thus, a PLC can have one or more owners, who are known as members or shareholders, and the management of the PLC can be either 100% member-managed or managed by few members designated as directors.



Public Limited Company (PLC): A Public Limited Company is a type of business structure in which ownership is divided into shares that can be traded on a stock exchange. A PLC can be divided into two types i.e., Unlisted public limited company or listed public limited company. A Listed PLC is required to have at least seven shareholders and must comply with strict regulations and reporting requirements. The liability of the shareholders is limited to the amount of their investment in the company.



The choice of business structure depends on various factors such as the size of the business, the number of owners, the liability of the owners, tax implications, and regulatory requirements. It is important for entrepreneurs and investors to carefully consider their options and seek professional advice before selecting a business structure.



Good to Know

Overall, Pakistan offers a range of business structures that cater to the needs of different types of businesses. The selection of the appropriate business structure is critical for the success of the business and requires careful consideration of the legal and regulatory framework, as well as the operational and financial requirements of the business.

FACTORS TO CONSIDER WHEN CHOOSING A LEGAL STRUCTURE FOR A BUSINESS

Choosing the right legal structure for a business is a crucial decision that can significantly impact its operations, liability, taxation, and overall success.

In Pakistan, entrepreneurs and business owners have several options, including sole proprietorships, partnerships, limited liability partnerships, private limited companies (include single member companies), and public limited companies.

Each legal structure comes with its own set of advantages, disadvantages, and legal requirements. To make an informed decision, it is important to consider various factors that align with the specific needs and goals of the business. The key factors that should be considered when choosing a legal structure for a business in Pakistan, ensuring the selection best suits the nature, scale, and future aspirations of the business. The key factors include liability protection, ownership and control, cost and complexity, Future plans, credibility and perception, taxation, succession and continuity planning and compliance requirements.

By evaluating these factors, entrepreneurs can make a well-informed decision and establish a solid legal foundation for their business endeavors in Pakistan.

In conclusion, selecting the right legal structure is an essential decision for any business in Pakistan. It is crucial to carefully consider the various factors, such as liability, tax implications, ownership, compliance requirements, cost, complexity, and future plans, before making a choice. Seeking professional advice from lawyers and accountants can also be helpful in making an informed decision.



One of the choices you make when starting a business and one of the most important is the type of legal organization you select for your business. This decision can affect how much you pay in taxes, the amount of paperwork your business is required to do, the personal liability you face and your ability to borrow money etc.

The answer to a very important question, “What structure makes the most sense?” depends on the individual circumstances of each business owner. One form is not necessarily better than any other. Each business owner must assess his or her own needs.

LEGAL AND REGULATORY FRAMEWORK FOR BUSINESS STRUCTURES

In Pakistan, businesses are regulated by a number of laws and regulations, which vary depending on the type of business structure. In this note, we will cover the legal and regulatory framework for business structures in Pakistan, including registration laws and other applicable laws.

Registration Laws:



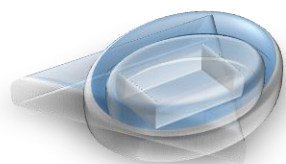
The Companies Act, 2017, is the primary law governing the registration and operation of companies in Pakistan. Under this law, businesses can be registered as a private limited company, public limited company, or a single-member company.



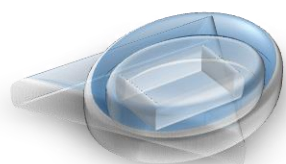
The Partnership Act, 1932, regulates the formation and operation of partnerships in Pakistan. Partnerships can be registered or unregistered. Registration is not mandatory but recommended for legal protection.



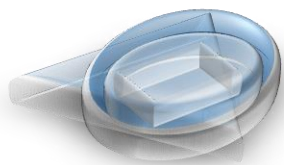
The Limited Liability Partnership Act, 2017, governs the registration and operation of limited liability partnerships (LLPs) in Pakistan. LLPs are a hybrid form of business structure, combining the features of both a partnership and a company.



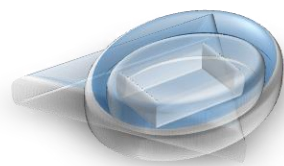
Income Tax Ordinance, 2001: The Income Tax Ordinance, 2001, is the primary law governing income tax in Pakistan. All businesses are required to register with the Federal Board of Revenue (FBR) and obtain a National Tax Number (NTN). Businesses are required to file their tax returns annually and pay the relevant taxes.



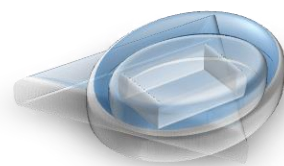
The Sales Tax Act, 1990: The Sales Tax Act, 1990, governs the sales tax regime in Pakistan. Businesses that are engaged in the sale of goods and services are required to register for sales tax with the FBR. They are also required to file their sales tax returns and pay sales tax on their supplies wherever applicable.



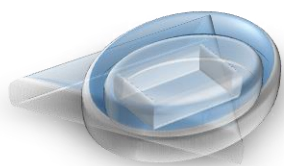
IP Laws: Pakistan has a comprehensive legal framework for the protection of intellectual property rights (IPR). These laws cover areas such as patents, trademarks, copyrights, and industrial designs. Businesses are required to comply with these laws and obtain necessary registrations and licenses to protect their IPR.



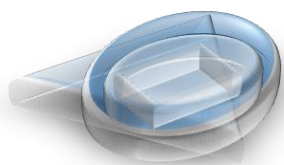
Labor Laws: Pakistan has a number of labor laws that regulate the rights and obligations of employers and employees. These laws cover a range of areas, including employment contracts, wages, working hours, social security, and occupational safety and health. Employers are required to comply with these laws and provide a safe and healthy working environment for their employees.



Employees' Old Age Benefits: It is a federal subject. The Purpose of Employees' Old-Age Benefits Act, 1976 is to provide Old-Age Pension/allowance, Old-Age Grant, Survivors' Pension and Invalidity Pension. It applies to every industry or establishment having ten or more persons are employed during the preceding 12 months. 6% of the minimum wage is contributed by the employer and 1% by the employee.



Employees' Social Security: It is a provincial subject. Every province has its own social security legislation. Normally Under Social Security Scheme, secured workers are entitled to cash sickness benefit, injury benefit, maternity benefit, iddat benefit, disablement gratuity, disablement pension, ex-gratia grant and dependents get survivors' pension and death grant. The employer is obliged to pay contribution at the rate of six percent of monthly wage. In case the wage is higher than the upper wage limit then 6% of the upper wage limit.



Industry-Specific Laws and Regulations: There are also industry specific laws and regulations which need to be adhered to commence a business and keep proper compliance of the same. For example, a person operating a pharmacy shop is required to comply Drug Regulatory Authority of Pakistan Act, 2012 and rules made thereunder.

SOLE PROPRIETORSHIP

IN THIS MODULE:

AT A GLANCE OVERVIEW:

1. Brief description of a sole proprietorship
2. Its General Features, advantages and disadvantages
3. Its formation and compliance and deregistration

- ✓ Expert Tips
- ✓ Good To Know Notes
- ✓ Illustrations
- ✓ Important Notes

AT A GLANCE

Sole proprietorship is one of the oldest forms of business ownerships in human history.

In Pakistan, sole proprietorship is a common form of business ownership, especially for small businesses.

Sole proprietorship is a popular form of business ownership, particularly for small businesses and individual entrepreneurs. The legal and financial requirements for setting up a sole proprietorship are generally less complex than those associated with other forms of business ownership, which makes it an attractive option for many people.

However, as with any business structure, there are both advantages and disadvantages to operating as a sole proprietor, and individuals should carefully consider their specific circumstances before making a decision.

DEFINITION AND BASIC CHARACTERISTICS OF A SOLE PROPRIETORSHIP**1.****Sole means “Only” or “single”**

Sole means “Only” or “single” and Proprietorship means “Ownership”. Sole proprietorship also known as individual entrepreneurship or proprietorship, is a type of enterprise owned and run by one person and in which there is no legal distinction between the owner and the business entity. A sole trader does not necessarily work alone and may employ other people as well.

Setting up a Sole proprietorship**2.**

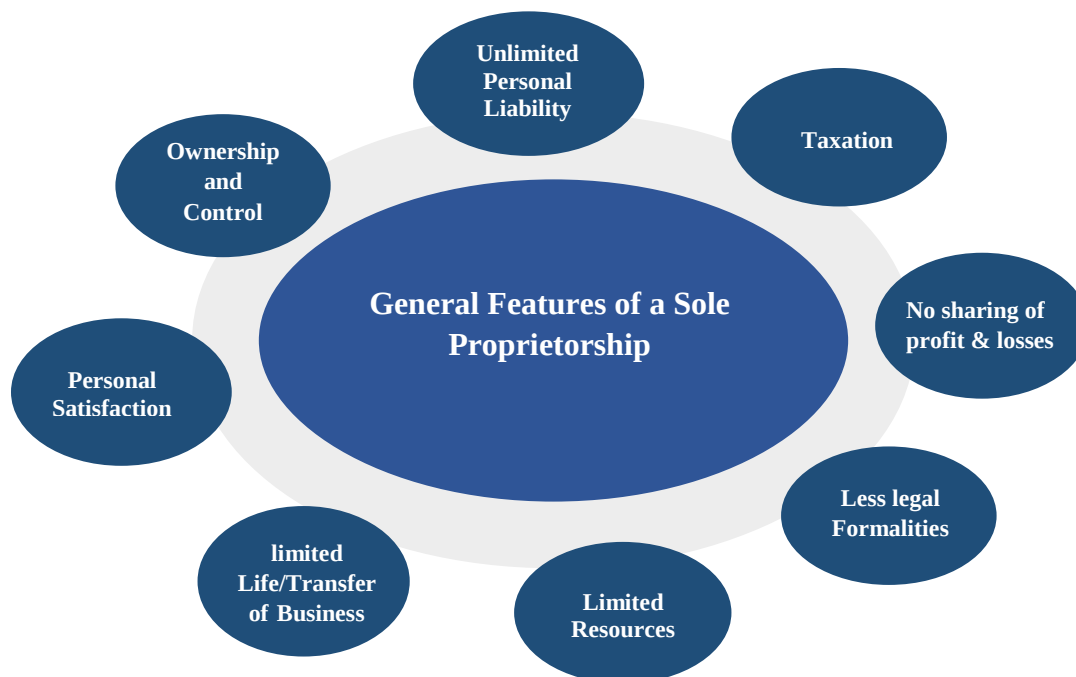
Sole proprietorships are easy to set up and to maintain—so easy that many people own sole proprietorships and don’t even know it. For example, if you’re a freelance photographer or writer, a crafts person who takes jobs on a contract basis, a salesperson who receives only commissions, or an independent contractor who isn’t on an employer’s regular payroll, you are automatically a sole proprietor.

1.**Pass Through Taxation**

In the eyes of the law, a sole proprietorship is not legally separate from the person who owns it. This characteristic is one of the fundamental differences between a sole proprietorship and a company. And it has two major effects: one related to taxation and the other to personal liability.

GENERAL FEATURES OF A SOLE PROPRIETORSHIP

A sole proprietorship is a type of business owned and run by one person, where there is no legal distinction between the owner and the business that means the owner is personally responsible for all losses, debts and obligations of the business. The owner also keeps all the profits, but has to pay taxes specific to the business. The business and the owner are not separate legal entities, which means that the owner owns all the assets and is responsible for all the debts of the business.



The general features of a Sole Proprietorship are as follows:



Ownership and Control: Since a sole proprietorship is owned and typically managed by a single person. The owner has complete control over all aspects of the business, including management, finances, and decision-making.

As the sole owner and manager of the business, the proprietor has complete authority to make decisions about the business. This includes decisions about what products or services to offer, pricing strategies, marketing and advertising, hiring and firing employees, and more. Because there is no board of directors or other stakeholders to consult with, the proprietor has the freedom to make decisions quickly and independently.

The proprietor is responsible for managing all aspects of the business, including day-to-day operations, financial management, and strategic planning. This includes tasks such as inventory management, bookkeeping, payroll, and more. The proprietor may choose to hire employees or outsource certain tasks, but they are ultimately responsible for ensuring that the business runs smoothly. As the sole owner of the business, the proprietor is responsible for providing the capital necessary to start and grow the business. This may involve investing personal savings, taking out loans, or seeking investment from family and friends. Because there is no separate legal entity for the business, the proprietor's personal finances are closely tied to the success of the business.



Unlimited Personal Liability: The owner of a sole proprietorship is personally liable for all debts and legal obligations of the business. This means that the owner's personal assets may be at risk if the business incurs debts or liabilities.

One of the most significant drawbacks of a sole proprietorship is that the proprietor is personally liable for all debts and legal obligations of the business. This means that if the business incurs debts or faces legal action, the proprietor's personal assets may be at risk. It is essential for proprietors to carefully manage their finances and ensure that the business is financially stable to minimize this risk.



Taxation: A sole proprietorship is taxed as an individual, rather than as a separate legal entity. The owner must file a personal income tax return and pay taxes on the profits of the business. A sole proprietorship business is not a withholding agent for income tax unless its total sales exceed 100 million in a tax year. It is also not a withholding agent for Sales tax.



Personal Satisfaction: A sole proprietorship can provide personal satisfaction to the owner, as they have complete control over the business and can see the direct results of their efforts.

One of the primary reasons why a sole proprietorship can provide personal satisfaction to the owner in Pakistan is because they have complete control over all aspects of the business. They can make decisions without having to consult with others, and they have the final say on how the business is run. This sense of control and autonomy can be satisfying for business owners who want to see their vision come to life.

Another reason why a sole proprietorship can provide personal satisfaction to the owner in Pakistan is because they can see the direct results of their efforts. Since they are the sole decision-maker and responsible for all aspects of the business, they can directly link the success or failure of the business to their own efforts. This can be incredibly rewarding for business owners who want to take charge of their own destiny and see the fruits of their labor.

A sole proprietorship also offers a great deal of flexibility to the owner, which can contribute to personal satisfaction. Business owners can set their own schedules, work on their own terms, and adapt to changes in the market quickly. They can also pursue their passions and interests through their business, which can be incredibly fulfilling.



Limited Life and Sale/ Transfer of Business: A sole proprietorship in Pakistan has a limited life, meaning that it can continue to operate as long as the owner wishes to run it. However, the business may not survive the death or retirement of the owner.

It does not enjoy perpetual existence as in case of Limited companies. In case the owner sells his business to someone else the decision-making process is quick and smooth but transfer of assets and other liabilities is quite complex and cumbersome. For example, if the sole business has licenses and permits and other registrations, then these registrations are not automatically

transferred to the new purchaser. The purchaser has to acquire all these licenses and permits and other registrations. And the seller has to go through the painful deregistration of his business with the relevant authorities.

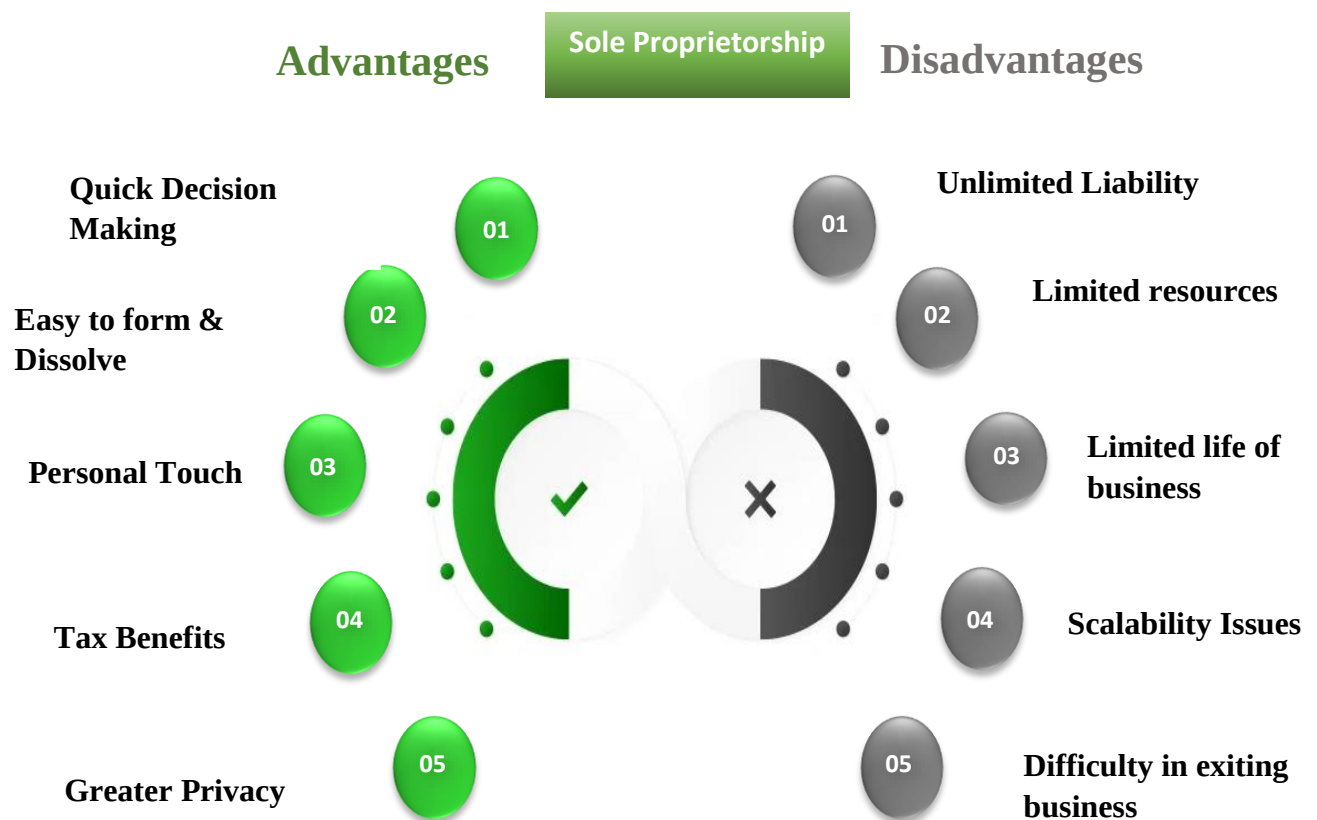


Limited Resources: One of the main disadvantages of a sole proprietorship in Pakistan are limited resources. Since the business is owned and operated by a single person, it relies solely on the owner's personal funds for capital.

This means that the business may have limited financial resources, which can limit its ability to grow and expand. As a sole proprietorship, the business owner may face challenges in accessing financing. Banks and other financial institutions may be hesitant to lend to a small business that is owned and operated by a single person. This lack of access to financing can further limit the business's ability to grow and expand.

ADVANTAGES AND DISADVANTAGES OF SOLE PROPRIETORSHIP

Sole proprietorship is the simplest and most common legal structure for undertaking business in Pakistan. It is a popular choice for small businesses and startups due to its ease of setup, low cost, and flexibility. Under this business structure, the business owner is responsible for all aspects of the business, including its debts, taxes, and legal obligations.



Advantages:

1

Easy and inexpensive to set up: Setting up a sole proprietorship is a relatively simple and straightforward process in which the business owner may opt to register his business with FBR which is done online. In Pakistan, the registration process is straightforward, inexpensive and doesn't require much paperwork or legal formalities.

2

Complete control over the business: Sole proprietors have complete control over all aspects of their business operations, including decision-making, management, and finances. As the sole decision-maker, the proprietor can make quick and independent decisions without having to consult with anyone else.

3

Flexibility to adapt to changing market conditions: Sole proprietors are flexible in adapting to changing market conditions as they do not have to consult with others before making changes to the business. This allows them to respond quickly to market changes and customer demands, and adjust their business operations accordingly.

4

Tax benefits: In Pakistan, sole proprietors are required to pay personal income tax on their business profits, which is usually lower than the corporate tax rate. Turnover tax and minimum tax are not applicable on sole proprietorship. This can result in significant tax savings for small businesses, especially during the early stages of the business.

5

Low startup costs: Starting a sole proprietorship is relatively inexpensive and requires less capital compared to other business structures like partnerships or corporations. This is because there are fewer legal and administrative expenses involved in setting up and operating the business.

6

Easy to dissolve: Closing a sole proprietorship is relatively easy and does not require much legal formalities or approvals. This allows business owners to dissolve the business quickly if they wish to move on to a new venture.

7

Greater privacy: Sole proprietorships in Pakistan do not have to file public financial statements or disclose financial information to anyone except the tax authorities. This can help maintain the privacy of the business owner and their financial affairs.

8

Quick decision-making: Sole proprietors can make quick decisions without consulting anyone else, which can help them respond quickly to market changes and stay ahead of the competition. Quick decision-making also helps in creating opportunities and avoiding losses

Disadvantages:



Unlimited personal liability for business debts and legal actions: The proprietor of a sole proprietorship has unlimited personal liability for all debts and legal obligations of the business. This means that the proprietor's personal assets may be at risk if the business incurs debts or legal action.



Limited access to financing: Sole proprietorships may find it difficult to access financing from banks and other financial institutions as they are considered a high-risk entity due to the lack of a separate legal entity.



Limited ability to raise capital: Since the proprietor is solely responsible for providing the capital necessary to start and grow the business, sole proprietorships may face limited financial resources which can restrict their ability to expand or grow.



Difficulty in hiring and retaining employees: Sole proprietorships may face difficulty in hiring and retaining employees, as they may not be able to provide the same level of job security and benefits that larger organizations can.



Personal liability for employee actions: As the sole decision-maker and responsible for all aspects of the business, the proprietor is personally liable for any legal actions arising from the actions of their employees.



Difficulty in expanding the business: Sole proprietorships may face difficulties in expanding their business due to limited financial resources and management expertise. Expanding the business may require more resources and expertise than what the proprietor has available.



Limited life of the business: Sole proprietorships have a limited life span as the business may not survive the death or retirement of the owner. This can make it difficult to pass on the business to the next generation or sell the business.



Limited management expertise: Sole proprietors may have limited management expertise which can hinder the growth and development of the business. They may not have the necessary skills to manage complex business operations or handle difficult situations.



Difficulty in exiting the business on transfer/ sale of business: Sole proprietors may face difficulty in exiting the business as they have to go through a complex process of selling or transferring the business. This process can be time-consuming and expensive, and the proprietor may not receive the full value of the business. For example, in case of registration with sales tax, customs etc..., the sole proprietor may have to go through departmental audit proceedings before closure/ sale of business.

PROCESS FOR REGISTRATION

As we mentioned earlier that there is no such express registration requirement for a sole proprietorship but there are practical considerations to register it with FBR.

For example, if a sole proprietorship business needs bank account in the name of the business, then business registration becomes mandatory. It has to file income tax return for tax payments on income and it is necessary to declare nature of activity and duration of the business etc. It is also mandatory to declare the business bank account in FBR profile of the sole proprietor.

The process for registering a sole proprietorship in Pakistan is relatively simple and straightforward.

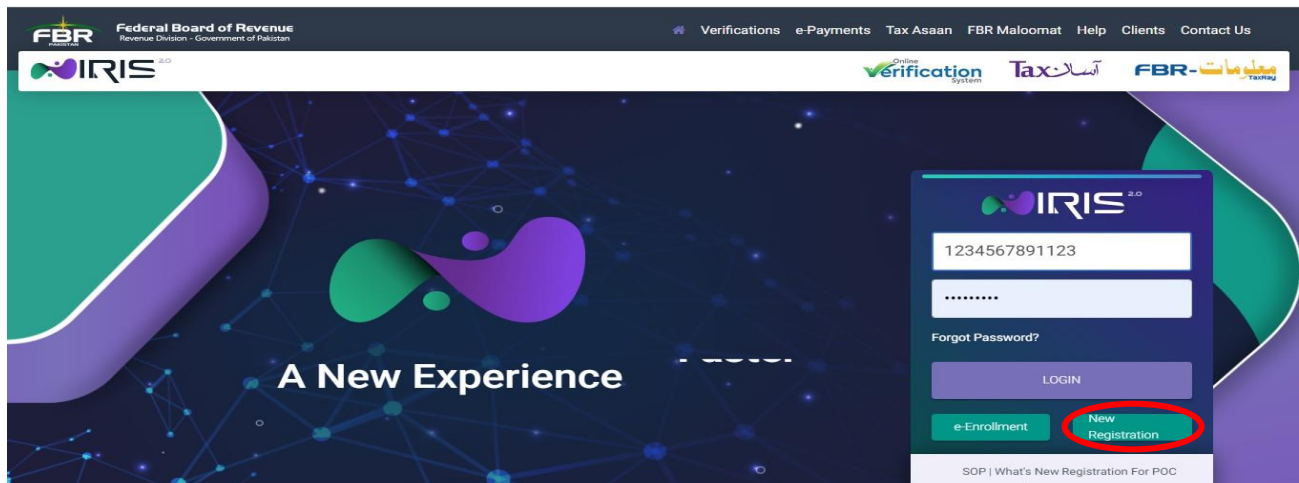


Here are the basic steps involved in the registration process:

Obtaining National Tax Number (NTN):

The first step in registering a sole proprietorship in Pakistan is to obtain a National Tax Number (NTN) from the Federal Board of Revenue (FBR). This is done by submitting an application along with supporting documents, such as copies of your CNIC and utility bill. The registration process is as under:

Go to <https://iris.fbr.gov.pk> mentioned below page shall appear.



Click on NEW REGISTRATION as encircled in the above snapshot. Following page shall appear for registration with FBR:

 The image shows the "New Registration" form on the FBR IRIS 2.0 website. The form is divided into two main sections: "Basic Information" and "Address Information".

 In the "Basic Information" section, there are fields for:

- CNIC * (7110281521415)
- Prefix * (Mr.)
- First Name * (Muhammad)
- Middle Name
- Last Name * (Aslam)
- Current Service Provider * (Mobillink)
- Cell Number * (00923123456789)
- Confirm Cell No. * (Registered on your CNIC) (00923123456789)
- Email * (abc@gmail.com)
- Confirm Email * (abc@gmail.com)

 In the "Address Information" section, there are fields for:

- Type * (Residential Property)
- Form * (House)

 At the bottom of the form, there is a copyright notice: "© 2023, All Rights Reserved Federal Board of Revenue Design and Developed by PRAL".

You have to make sure that:

- You must use Active Contact number and email address so you can get verification codes easily.
- Enter the provided Captcha and click on submit button.

The screenshot shows the 'New Registration' form on the FBR website. The 'Address Information' section is active. The form includes fields for Type (Residential Property), Form (House), Measurement Unit (square yard (yd2)), Area (500.00), Unit No. (Flat # 01, First Floor), Complex / Street (ABC Building, Street 22B), Area / Locality (Phase-II, DHA), City (Karachi South), District (Karachi South), Capacity (Benami / Lessee / Tenant / Franchisee / Occupant), and % Share (100). A red circle highlights the 'Submit' button. The KHyd logo is visible at the bottom left, and a copyright notice for PRAL is at the bottom center.

After submission, the following page will appear:

- Enter codes you have received Via SMS and Email and click on verify button:

The screenshot shows the 'New Registration' form on the FBR website, now in the verification stage. The 'Address Information' section is still active. The form includes fields for Type (Residential Property), Form (House), Measurement Unit (Other), Area (Area), Unit No. (House No. 163), Complex / Street (Street No. 3), Area / Locality (Muhalla Nalapar, Soft road, Azam town), City (Karachi East), District (Karachi East), Capacity (Owner), and % Share (100). Below these fields are input boxes for SMS Code and Email Code, with 'Resend' and 'Submit' buttons. A note at the bottom states: 'If sms is not received within 1 minute, type "msg" and send a text message to 9966. Click resend if "no message found" is received from 9966.'

- In case codes are not received within 05 minutes type "msg" and send to 9966.
- In case codes are not received click on resend button.

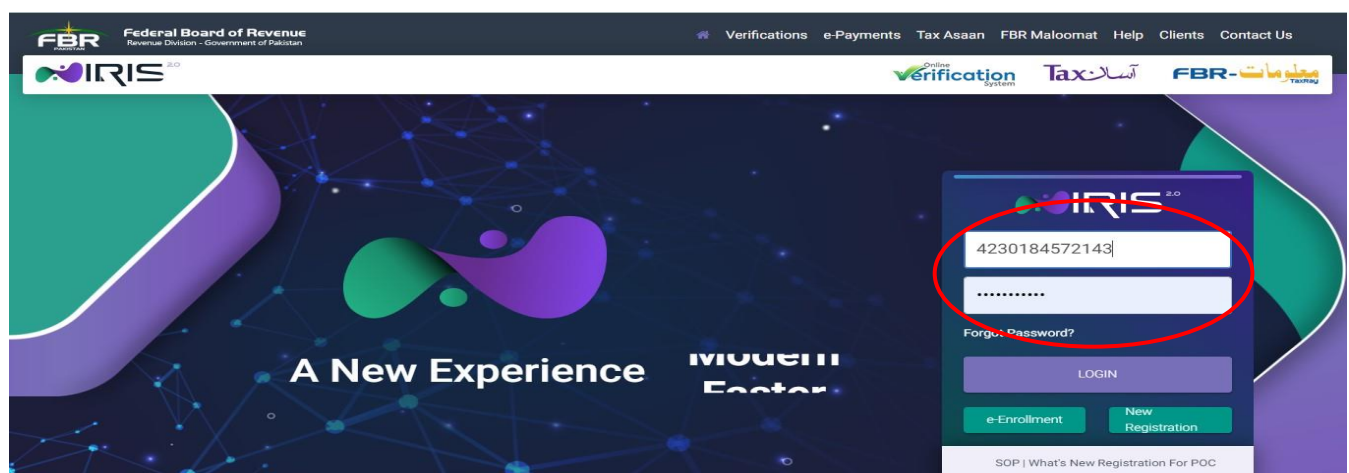
After successful verification you shall get FBR Credentials on email and in SMS as well as follows:

Here your individual registration in FBR (NTN Registration) has completed.

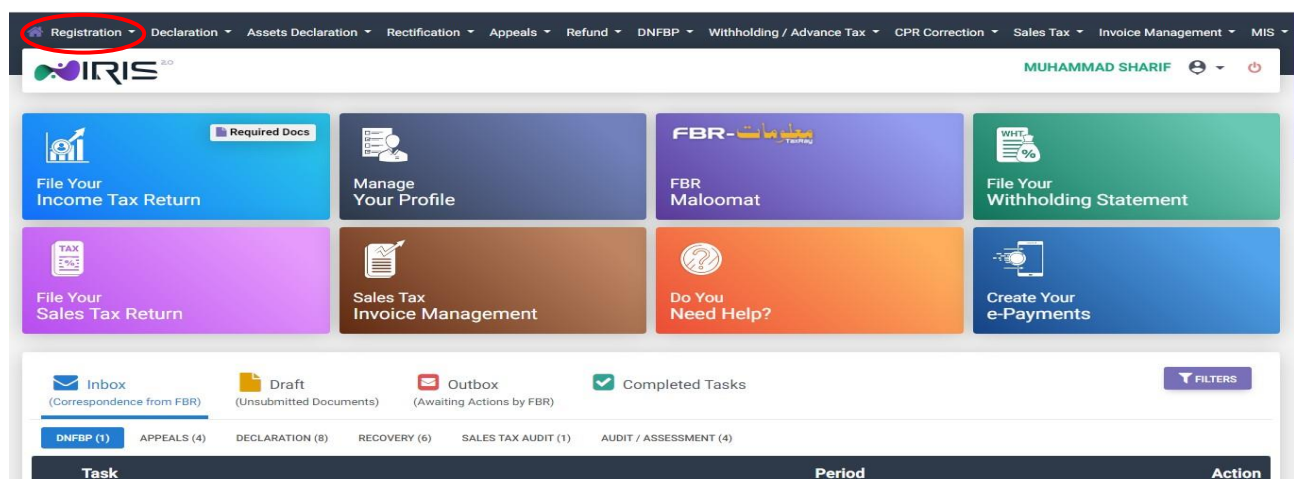
Business Registration process:

1. First Step is to open Business registration form;
 - a. Login to IRIS at <https://iris.fbr.gov.pk/>
 - b. Click on “REGISTRATION TAB” and
 - c. select form “181 (Form of Registration filed for modification) (Income Tax)”

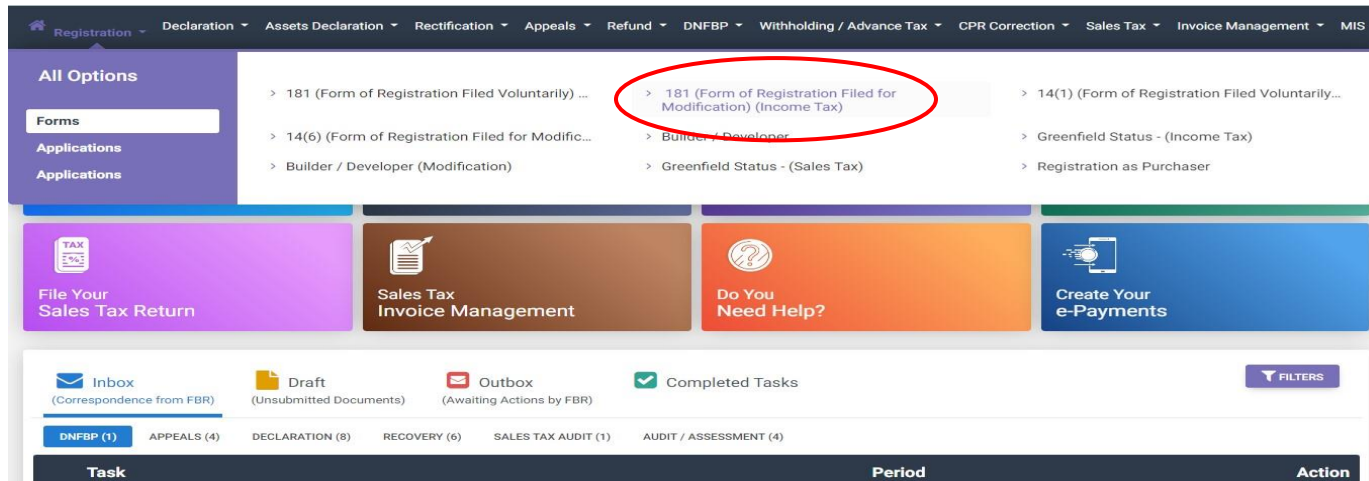
The login interface of IRIS is as follows:



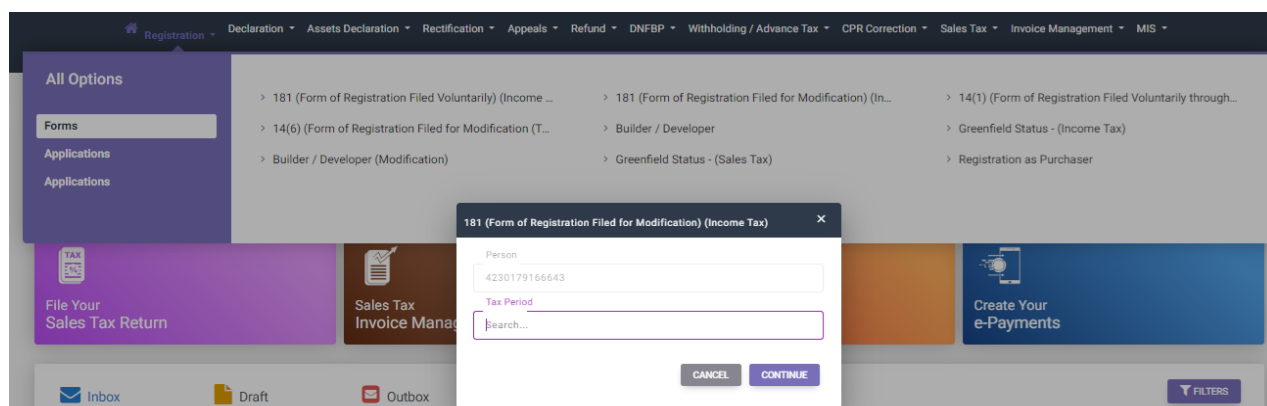
Now upon entering your ID & Password and Click on login you will see the following dash board: Click on the Registration Tab as highlighted below;



Now Click on 181 (Form of Registration filed for modification) (Income Tax)” as highlighted below;



After selecting the 181 (Form of Registration filed for modification, the following page will appear:



Enter the current tax year for example 2024, Tax year date shall appear. Click on select, a new page will appear and:

1. Go to “Business Tab”

Step1: enter business name,

Step2: acquisition date and capacity “owner”

Step3: click on + button & check mark principal activity

Step4: click on search button (select relevant business activity)

Step5: enter business starting date click on ok button

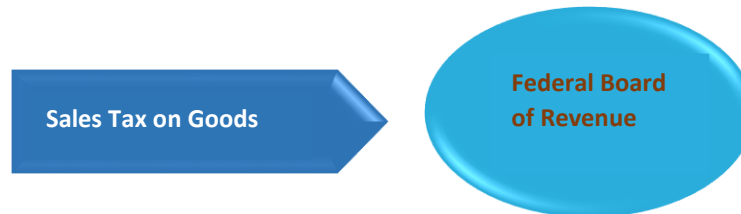
Step6: link the business address

Step7: to go attachment “Tab”

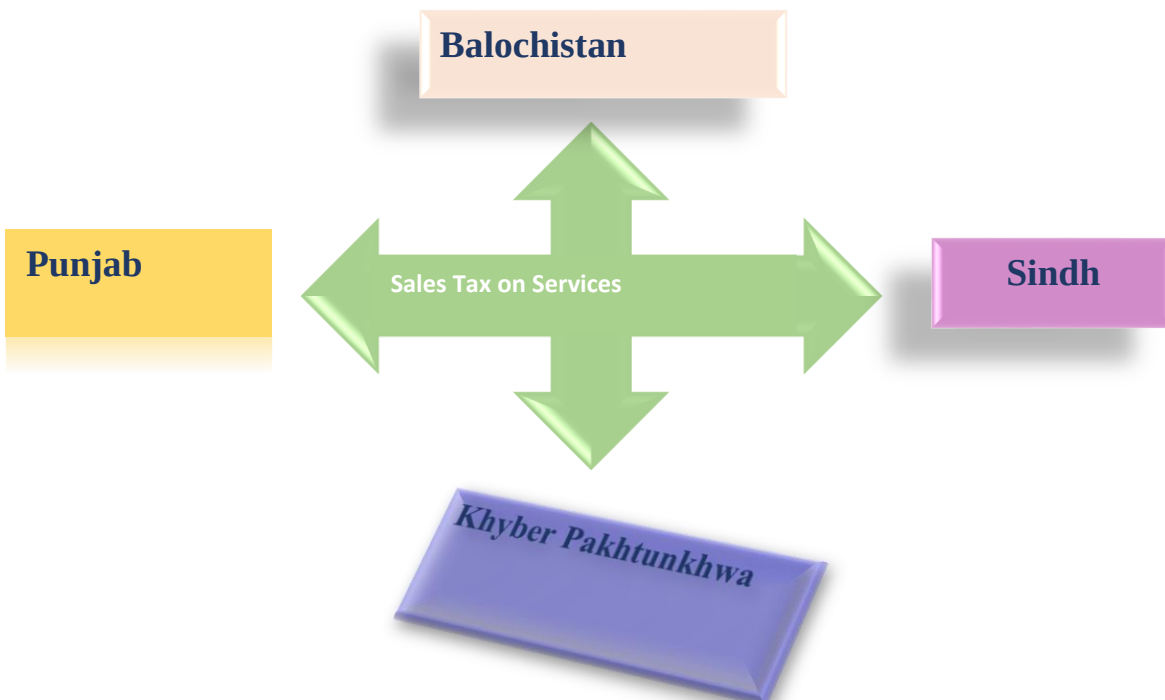
Attach all three required documents (Form 181, evidence of tendency/ownership of business premises and paid utility bill; then click on submit button and registration is completed here. You will get registration order in five to ten minutes automatically.

Register for Sales Tax:

If the product being sold is sales taxable, it is required to register for Sales Tax with the Federal Board of Revenue. Sales tax registration requires the submission of an online application with IRIS portal along with relevant documents such as bank statement, NTN, CNIC copy, rental agreement etc.



In case the business is providing services, it may be required to register for service sales tax. Sales tax on services is a provincial subject. It has to get the registration in the province where the business provides such services.



POST REGISTRATION COMPLIANCE

Post-registration compliance for sole proprietorship business in Pakistan involves fulfilling tax obligations, maintaining accurate records, obtaining necessary licenses/permits (if applicable) and separating personal and business finances through a dedicated bank account. Adhering to these requirements is important to avoid legal complexities and maintain legal compliance.



Since sole proprietorship is not registered with any other authority, it has no compliance requirements with any authority except for FBR where the owner has to report the details of bank accounts opened and in special cases where it has obtained permission or license from any provincial or Federal Authority, the relevant details as prescribed.

FBR Compliance:

If there is a change in the name of the business or change in address or in bank accounts, it has to report to FBR through online amendment application (181-Amendment application). Furthermore, the sole proprietorship is required to file his annual tax return and shall report his business sales, purchases, business expenses and other details with his personal return. There is no separate filing for a sole proprietorship business.



Shopkeepers and traders under Tajir Dost Scheme, 2024 are required to compute and pay advance tax on monthly basis which are required to be paid on 15th of the month.

For example, if a shopkeeper or trader registers himself on 1st April 2024, and his advance tax liability is computed at zero, then he shall be eligible to pay a minimum of Rs 1,200/- per annum, and this liability would be divided into 12, resultantly, he shall be liable to pay Rs 100/- for the month of July and it shall be due on 15th July 2024, this shall continue on for the upcoming months such as, 15th August 2024, 15th September 2024 and so forth.

If the business is registered with Sales tax, it has to file sales tax returns each month even if it has no sales or purchases for the month. The monthly return shall be filed on or before 15th of the following month to which it relates. For example, a return for the month of January shall be filed any time from February 01 to February 15. In case there is sales tax payable in any month, then the tax shall be payable till 15th day of the next month following the month to which it relates and return shall be filed on or before 18th of the month. In case of previous example, the tax shall be payable by 15th of January and return shall be filed on or before 18th of January.

If the sole proprietorship has total sales of one hundred million rupees or above in any of the preceding tax year, then the business shall be a withholding agent and has to deduct Income tax on payments exceeding certain threshold at prescribed rates. In case of services, the threshold is Rs. 30,000 and in case of supplies is Rs. 75,000/- in aggregate for a single person or business in a financial year.

In case of any tax whether sales tax or Income tax withheld by the sole proprietorship from any person, it has to be submitted to FBR within seven days. In case of non- submission and non-payment, default surcharge at prescribed rates will be applicable and the authority may also impose fines and penalties.



Imagine a small tea stall run by Ali, a sole proprietor in Pakistan. Ali is the sole owner and manager of the stall. He decides everything - from what types of tea to serve to how much to charge. The stall's profits are Ali's income, but here's the catch: if the stall runs into debt or faces any legal issues, Ali is personally responsible. His own savings or assets, like his bicycle or home, might be used to settle those business-related obligations. This simple tea stall setup represents the basic concept of a sole proprietorship.

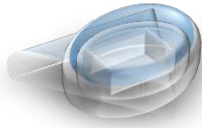


RECORD KEEPING

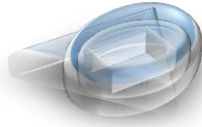
Perhaps the hardest part of accounting is getting over the psychological hangup that most people seem to have about it. In truth, you don't need to be a financial expert to start accounting for a small business; you just need a comfortable working knowledge of the basics.

Record keeping is very important for any business, whether it is small or a large one. If you are a small business, you may not be required by law to prepare and keep financial statements and other

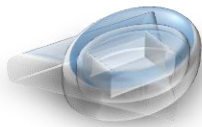
records. But every small business should keep certain basic record of sales, purchases and expenses for income tax return filing. Record keeping helps you in the following ways:



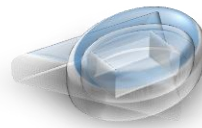
You'll improve your chances of making a profit. Having a firm handle on your income and expenses is essential to making smart business decisions that lead to profitability.



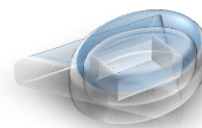
You'll be able to price your goods and services more competitively. Only by staying on top of your business's income and expenses will you know how much money you'll need to bring in each week, month, or year to make a profit. This knowledge is essential to allow you to price your goods and services appropriately. For instance, if you don't know your break-even point, you will only be able to guess at how much you should charge your customers for products or services, with the likely result that you'll charge too little (and make an inadequate profit) or too much (and alienate customers).



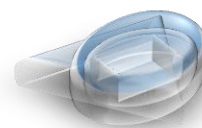
You'll be able to trim costs strategically. Having updated and categorized expense data will allow you to see your spending patterns and spot areas where you can reduce your costs to improve your bottom line. For example, you might see the need to cut back on travel expenses or on out-sourced services that aren't sufficiently helping generate income.



Necessary for tax compliance. You'll have well-organized financial information that is necessary to file your various tax returns and local tax registration papers. There's no worse nightmare than facing a tax deadline and having months' worth of unorganized receipts that haven't been entered into your record-keeping system (or worse yet: not having a record-keeping system in place).



You might be able to reduce taxes. Knowing your company's finances inside and out will help you save money when tax time comes around. For example, if your record is up to date and have all the supporting evidence, then you will not to worry about tax audits from FBR. Moreover, by complying, you can circumvent tax penalties since the Federal Board of Revenue (FBR) retains the authority to request information from any year within the past five years. Failure to furnish the requested information may result in penalties.



You'll be well positioned to apply for loans or grants. If your business accounts are in order, then you are most likely to be eligible for small business assistance programs from the government and other entities. If your books aren't in order, it will be difficult or impossible to apply for these funds.

Expert Tip

Remember! “**Organization**” is **everything**. A well-organized record keeping system with accessible, reasonably neat files (including both hard-copy and electronic records) not only will be helpful in the event of an audit, but will help you keep track of your business as well.

Remember! Tajir Dost Scheme is applicable to sole proprietorships and partnerships only, it does not apply to companies.

Cash Versus Accrual Accounting:

There are two principal methods of keeping track of a business’s income and expenses i.e., cash method and accrual method accounting (sometimes called cash basis and accrual basis accounting). A business can opt any of the above method except for a company.

In a nutshell, the difference between these methods has to do with the timing of when transactions—both sales and purchases—are credited to or debited from your accounts.



Cash Method: Under the cash method, income is counted when cash (or a cheque) is actually received, not necessarily when the sale occurs; expenses are counted when they are actually paid, not necessarily when you made the purchase.



Accrual Method: Under the accrual method, transactions are counted when they happen, for example, when you complete a sale or make a purchase regardless of when the money is actually received or paid. You don’t have to wait until you receive the money, or until you actually pay money out of your checking account, to record the transaction.



Sara runs a small tea shop called Sara’s Cafe. On June 28, 2023, Sara buys a number of office supplies for which she will be billed Rs 2,000. She takes the supplies that day but, according to the terms of the purchase, doesn’t pay for them for 15 days. Under her accrual system of accounting, she counts the 2,000 expenses during the June 2023 accounting period, even though she didn’t actually write the cheque or pay in cash until July. This means that Sara can claim/ deduct the Rs. 2,000 expenses from her income.

Please note that normal tax year in Pakistan starts from July 01 of any year and ends on June 30 of the following year. E.g., Tax year 2023 means July 01, 2022 to June 30, 2023.

Maintenance Of Records:

A business should maintain the following proper books of account, documents and records with respect to:

- a. all sums of money received and expended by the taxpayer and the matters in respect of which the receipt and expenditure takes place;
- b. all sales and purchases of goods and all services provided and obtained by the business;
- c. all assets of the business;
- d. all liabilities of the business; and
- e. in case of a business engaged in assembly, Production processing, manufacturing, mining or like activities, all items of cost relating to the utilization of materials, labor and other inputs.
- f. Serially numbered and dated cash-memo/ invoice / receipt for each transaction of sale or receipts.
- g. Daily record of receipts, sales, payments purchases and expenses: a single entry in respect of daily receipts, sales, purchases and different heads of expenses will suffice; and
- h. Vouchers of purchases and expenses.
- i. Any other documents or information.

Normally, if you own a small business you may need to prepare and maintain daily sales book, daily purchases book, sales return book, cash book, inventory or stock book, fixed assets register, daily expenses book, income statement and balance sheet.

PROCESS FOR DEREGISTRATION

Deregistration of a sole proprietorship is very easy in circumstances if the business is not registered with sales tax and any other authority.

If the sole proprietorship is only registered with FBR, deregistration of the business is simply applied by filling form modification application through FBR online portal. The process takes hardly ten minutes and your de-registration shall be complete through automatic modification 181 Order.



If the sole proprietorship is registered with sales tax, then it has to deregister from Sales tax which may involve audit of the records. After deregistration with sales tax, the process is same as explained above.

CASE STUDIES OF SUCCESSFUL SOLE PROPRIETORSHIP BUSINESSES IN PAKISTAN

Many successful companies did indeed begin as small, single-person operations. A sole proprietorship is the simplest and most common form of business ownership, in which an individual runs the business and is personally responsible for its debts and obligations.

As a business grows, the owner may choose to incorporate the business and form a company, such as a limited liability company (Single Member Company or Private Limited Company or Public Limited Company). This process can offer several advantages, such as protecting the owner's personal assets from business debts and providing more opportunities to raise capital and expand the business.

However, it's worth noting that not all successful businesses choose to incorporate or become large companies. Some owners prefer to maintain sole proprietorships or small partnerships to maintain greater control and flexibility over their businesses. Ultimately, the choice to incorporate or remain a sole proprietorship depends on the goals and needs of the individual business owner.

Here are a few examples of successful sole proprietorship stories:

Khaadi: Khaadi is a fashion retail brand that started as a small sole proprietorship business in 1998. The founder, Shamoan Sultan, started with just two handloom machines and a small store in Karachi. Today, Khaadi has become one of the leading fashion retail brands in Pakistan, with over 50 stores across the country and a significant presence in international markets.

Amazon: Amazon is one of the world's largest e-commerce companies, but it started as a sole proprietorship business in the garage of founder Jeff Bezos in 1994. Bezos initially started selling books online, but the company has since expanded to sell a wide range of products and services.

Spanx: Spanx is a popular clothing brand that produces undergarments, leggings, and other clothing items. It was founded by Sara Blakely as a sole proprietorship business in 1998. Today, the company has expanded to sell products in over 50 countries and has an estimated net worth of over \$1 billion.

INTERACTIVE ACTIVITY: Participants work through a scenario of establishing a sole proprietorship**Scenario:**

You have decided to start a small business selling homemade jewelry. You have created a few pieces of jewelry that you think will sell well, and you want to start selling them at local markets and online. You have decided to establish a sole proprietorship to run your business.

Task:

1. Identify the legal requirements to establish a sole proprietorship in your area. Research the registration process, business licenses and permits, tax obligations, and any other legal requirements that need to be fulfilled.
2. Choose a name for your business and check if it is available.
3. Decide on a location for your business. If you plan to sell your jewelry online, you will need to set up an e-commerce platform and create a website.
4. Open a separate bank account for your business to keep your personal and business finances separate.
5. Register for a National Tax Number (NTN) and Sales Tax registration, if applicable.
6. Start keeping accurate records of your business transactions, including income, expenses, and receipts.
7. Obtain any necessary licenses and permits required to sell your products in your area, such as a sales tax permit or a vendor's license for markets.
8. Develop a marketing plan to promote your business and attract customers. Consider using social media, attending local markets, or partnering with other businesses.

By working through this scenario, participants can understand the steps involved in establishing a sole proprietorship and the legal requirements that need to be fulfilled to operate the business legally. They can also learn about the importance of keeping accurate records and separating personal and business finances.

RESOURCES: NTN Certificate

FBR PAKISTAN

Government of Pakistan
Federal Board of Revenue
Inland Revenue Services

TAXPAYER REGISTRATION CERTIFICATE

(Under Section 181C of the Income Tax Ordinance 2001)

Registration No.	422 61	 4220107274961
Date of Registration	12-Mar-2010	
Type of Person	Individual	
Name	ABDUL KHAN	
Address	TERMINAL JINNAH INTERNATIONAL AIRPORT	
Tax Office	RTO-II KARACHI	
Activity Type	Business	

Inland Revenue Service

This is a computer generated certificate and, hence, no signatures are required.

Displaying of Taxpayer Registration Certificate is mandatory as provided under section 181C of Income Tax Ordinance 2001.

This is not a valid evidence of being a "filer" for the purposes of clauses (23A) and (35C) of sections 2 and 181A of the Income Tax Ordinance 2001.

IRIS

PARTNER IN PROGRESS ►►

FBR HELPLINE 051 111 772 772

Date of Print 11-Dec-2023
helpline@fbr.gov.pk www.fbr.gov.pk

Resources: Business Registration Order

**181 (ORDER TO GRANT / REFUSE MODIFICATION TO REGISTRATION ON APPLICATION)**

Name: Asghar Ali
Address: House 123, DHA, Karachi
Registration: 4223224565671
Tax Year: 2024
Period: 01-Jul-2023 - 30-Jun-2024
Medium: System
Due Date: 12-Feb-2024
Document Date: 12-Feb-2024

**Personal Info:**

Person: Individual
Type: Pakistani Male
Name: _____
Cell No.: 234567889
Email: abc@gmail.com
Nationality: Pakistan
Accounting Period: 01st July - 30th June
Formation/Birth Date: 14-May-1994
liquidation/Death Date: _____
Registered Address: ناظم آباد، کراچی وسطی
Registered for Sales Tax: No

DNFBP Registration Status:**Addresses:**

Office # 123, DHA, Karachi.			
Type: Commercial Property	Capacity: Benami / Lessee / Tenant / Franchisee / Occupant	Acquisition Date:	
Form: Office	% Share: 10	Disposal Date:	
Owner Name:		Owner CNIC:	

Office # 123, DHA, Karachi.			
Type: Residential Property	Capacity: Benami / Lessee / Tenant / Franchisee / Occupant	Acquisition Date:	
Form: House	% Share: 10	Disposal Date:	
Owner Name:		Owner CNIC:	

Businesses:

ABC & Co.			
Capacity :	Owner	Acquisition Date :	02-Mar-2022
Disposal Date :			

**181 (ORDER TO GRANT / REFUSE MODIFICATION TO REGISTRATION ON APPLICATION)**

Name: _____
Address: _____

**Registration**

Tax Year : 2024
Period : 01-Jul-2023 - 30-Jun-2024
Medium : System
Due Date : 12-Feb-2024
Document Date : 12-Feb-2024

Businesses:

Capacity : Owner Acquisition Date : 02-Mar-2022					
Disposal Date :					
Activities	Principle	ST	FED	Start Date	End Date
Construction/Building completion and finishing/Building completion and finishing	Yes	No	No	02-Mar-2022	
Address	Capacity			Start Date	End Date
	Business Operated on			12-Feb-2024	

Attributes

Attribute	Value
Decision	Granted / Accepted

Attachments

Evidence with 181 (Form of Registration filed for modification)
(Income Tax)
Evidence of tenancy / ownership of business premises
Paid utility bill of business premises not older than 3 months

GENERAL PARTNERSHIP

IN THIS MODULE:

AT A GLANCE OVERVIEW:

1. Brief description of a general partnership
 2. Its General Features, advantages and disadvantages
 3. Its formation, compliance and dissolution.
- ✓ Expert Tips
 - ✓ Good To Know Notes
 - ✓ Important Notes
 - ✓ Illustrations

AT A GLANCE

A general partnership is a business structure where two or more individuals share ownership, responsibilities, and profits. Its nature involves a collaborative effort, with partners collectively contributing to decision-making and operations.

The features include a shared management structure and the joint and several liability of partners for business debts. Merits of a general partnership include simplicity in formation, shared responsibilities, and flexibility in decision-making. However, demerits encompass unlimited personal liability for debts and potential conflicts among partners.

It is not mandatory for a general partnership to be registered with registrar of firms but it is required to be registered with FBR.

Registration involves filing a partnership agreement with local authorities, outlining key terms of the partnership.

Compliance includes adherence to local regulations, tax obligations, and maintaining clear communication among partners.

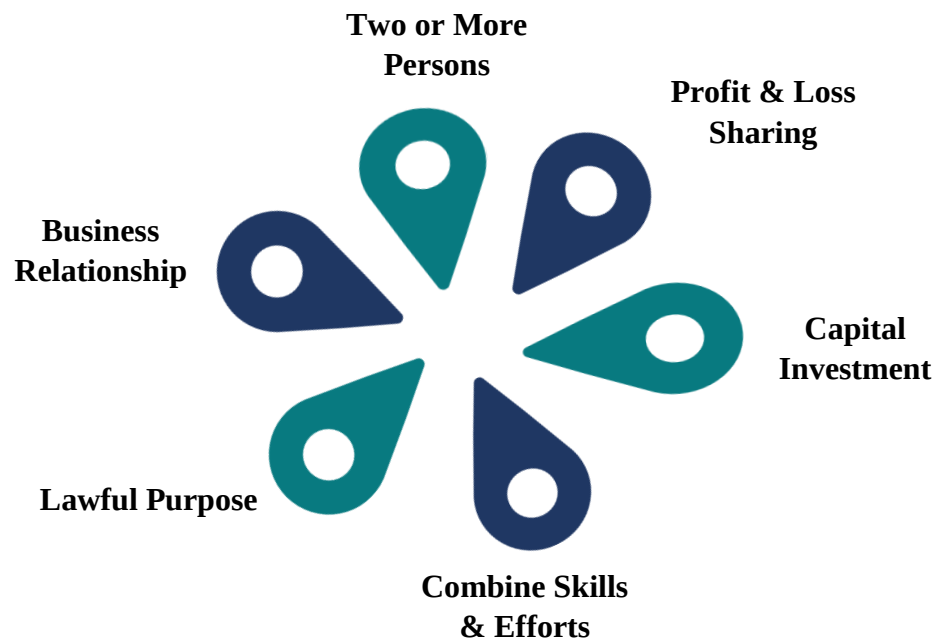
While a general partnership offers simplicity and shared responsibilities, partners should carefully consider the potential risks associated with personal liability before establishing this business structure.

DEFINITION AND TYPES OF A GENERAL PARTNERSHIP

In Pakistan, a partnership typically refers to a general partnership, where two or more individuals collaborate to run a business, sharing profits, liabilities, and managerial duties.

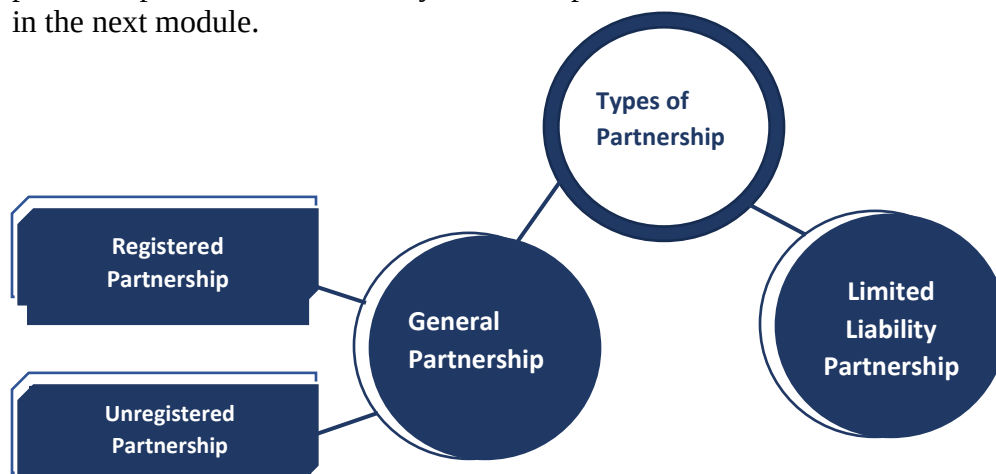
Definition

Partnership is a relationship between two or more persons who have agreed to share the profits of a business. This means that partners agree to combine their resources, skills, and efforts to conduct a business, and share the profits or losses of the business in proportion to their agreed contribution or investment.



Types of Partnerships

There are two types of partnerships based on regulatory framework applicable to it General partnership and Limited Liability Partnership. We will discuss about Limited Liability Partnership in the next module.



Partnership Act, 1932 governs general partnerships and it is a provincial law. A general partnership is registered with registrar of firms. However, it is not mandatory to register a general partnership with the Registrar of Firms. But there are certain consequences and implications associated with choosing not to register the partnership with the registrar of firms.

It is not legally necessary for a partnership to have a written agreement. The simple act of two or more people doing business together creates a partnership. But only with a clear written agreement will all partners know the important—and sometimes touchy—details of their business arrangement. Normally general partnerships are called partnerships.



Expert Tip

Consequences of not registering a Partnership

In case of not registering a partnership with the registrar of firms, the partners cannot sue each other and neither third parties in case of disputes. Therefore, weigh in all the potential risks carefully deciding to go with unregistered partnership.

GENERAL FEATURES OF A GENERAL PARTNERSHIP

A general partnership possesses certain distinctive features. Here are the key features of a registered general partnership:

VOLUNTARY REGISTRATION

1

Registration under the Partnership Act is not mandatory but voluntary. Partners have the option to register their partnership to avail certain benefits and legal protections provided by the Partnership Act.

NOT A SEPARATE LEGAL ENTITY

2

A general partnership is not considered a separate legal entity from its individual partners. A partnership business is sued in the name of the partners.

MUTUAL AGENCY

3

Each partner in a general partnership act as an agent for the partnership and are agents of each other. This means that partners can bind the partnership and other partners in their dealings with third parties within the scope of the partnership's business.

SHARED PROFITS AND LOSSES

4

Partners share the profits and losses of the partnership as per the agreed-upon ratio mentioned in the partnership deed. Sharing profits and losses is an important factor in determining whether a partnership exists or not.

UNLIMITED PERSONAL LIABILITY

5

One significant feature of a general partnership is that partners have unlimited personal liability. Partners are jointly and severally liable for the debts, obligations, and liabilities of the partnership. This means that personal assets of the partners can be used to settle the partnership's liabilities.

These features outline the key aspects and legal framework of a general partnership registered under the Partnership Act of 1932 in Pakistan. It is essential for partners to understand and comply with the provisions of the Act and seek professional advice to ensure adherence to the applicable laws and regulations.



Good to Know

The partners are personally liable for all business debts, including court judgments, and each partner can be sued singly for the full amount of any business debt (though that partner can turn around and sue the other partners for their share of the debt).

The partners are jointly and severally Liable for the partnership obligations.

ADVANTAGES AND DISADVANTAGES OF A PARTNERSHIP

Advantages

1.

Shared Expertise and Resources

Partnerships allow for pooling of skills, knowledge, and resources. Each partner can contribute unique expertise and resources, leading to better decision-making and improved business outcomes.

Shared Financial Burden

2.

Partnerships enable partners to share the financial burden of starting and running a business. This can make it easier to access capital, invest in growth opportunities, and manage business expenses.

3.

Flexibility

Partnerships offer flexibility in terms of organizational structure, decision-making processes, and profit-sharing arrangements. Partners have the freedom to define their roles, responsibilities, and contributions based on their individual strengths and interests.

Tax Advantage

2.

Partnerships are not subject to corporate income tax. Instead, the profits and losses of the partnership are taxed at applicable tax slab rates. It is not a withholding agent for Sales tax and is also not considered as withholding agent for income tax unless its turnover exceeds 100 million in a financial year.

3.

Decision Making

Partnerships often allow for more efficient and streamlined decision-making processes. Partners can consult with each other, share ideas, and make decisions collectively, leading to quicker responses to business opportunities and challenges.

Disadvantages

Unlimited Liability



One of the main drawbacks of partnerships is unlimited personal liability. Each partner is personally and jointly liable for the debts, obligations, and liabilities of the partnership. This means that personal assets of partners can be at risk to settle the partnership's obligations.

Shared Profits



Partnerships involve sharing profits with other partners based on agreed-upon ratios. This means that partners have to share the financial rewards of the business, which may not always align with individual efforts or contributions.

Shared Decisions



While collaborative decision-making can be an advantage, it can also lead to conflicts and disagreements among partners. Differences in opinions, decision-making styles, or conflicting goals can hinder effective decision-making and potentially strain the partnership.

Uncertainty



Partnerships may entail uncertainty due to lack of clear guidelines pertaining contributions, decision-making, roles and responsibilities of each partner, and financial arrangements. Ambiguity in succession planning and susceptibility to external factors add further unpredictability. The absence of clear guidelines can lead to conflicts and disruptions, emphasizing the importance of a well-defined partnership agreement.

Limited Growth



Partnerships may face challenges when it comes to scaling and accessing certain opportunities. Partnerships may find it more difficult to attract external funding, expand internationally, or transition to a different business structure.



Good to Know

Persons who are doing business under partnership structure or sole proprietorship as wholesaler, trader, dealer, retailer, manufacturer cum retailer, importer cum retailer or combining the activity of retail and wholesale with any other business activity or as other person in the supply chain of goods are required to register with FBR and pay monthly advance tax under Tajir Dost Scheme, 2024.

This scheme is not applicable to a company, national or international chain stores operating in more than one city or to any persons specifically specified by the FBR.

LEGAL REQUIREMENTS

As explained earlier that it is not mandatory to register a Partnership with registrar of firms but it is strongly advisable and is recommended to register it with registrar of firms.

To register a Partnership in Pakistan, the following legal requirements must be met:

01

At least two partners

A Partnership must have at least two partners, who can be individuals. Any individual of at least 18 years and having a sound mind may become a partner in a limited liability Partnership. In case of individual partners, CNICs, phone number, email, rent agreement (by some registrars), electricity bill of office.

02

Signup with Firm's portal

The authorized partner will create account by signing up with the relevant province's Firm registration portal. Phone number, email and basic information are required.

03

Partnership agreement

The Partnership agreement must be drafted and executed by the partners. The agreement should outline the terms and conditions of the Partnership and the rights and obligations of the partners.

04

Application for Registration

An application for registration must be submitted to the registrar, along with the necessary documents and fees.

05

Payment of Fee

A registration fee must be paid to the registrar in any designated branch of NBP at the time of registration. Upon payment of fee, the registrar will assess the application for registration and issue a certificate of registration of the firm.

06

After registration with registrar of firms, the partners must obtain a National Tax Number (NTN) for the partnership and for all the partners from the Federal Board of Revenue (FBR). After registration with FBR, NTN certificate will be issued electronically by FBR.

National Tax Number

07

Office Address

An office is required which is mentioned in the partnership deed. It is also mandatory to have a latest paid electricity bill for NTN registration of the Partnership.



It's important that all the partners must obtain national tax number before applying for NTN of the Firm. Furthermore, same rule applies for NTN registration of an unregistered partnership as well.



Good to Know

Registration process and documentation thereof in various provinces may be a little bit different.

For example, in Karachi, Khairpur and other parts of Sindh does not require physical presence and rent agreement of the office premises. But in Islamabad physical presence of all the partners for registration is required and rent agreement and a utility bill is also required.

In Punjab, no personal presence is required but rent agreement and a latest paid utility bill is required.

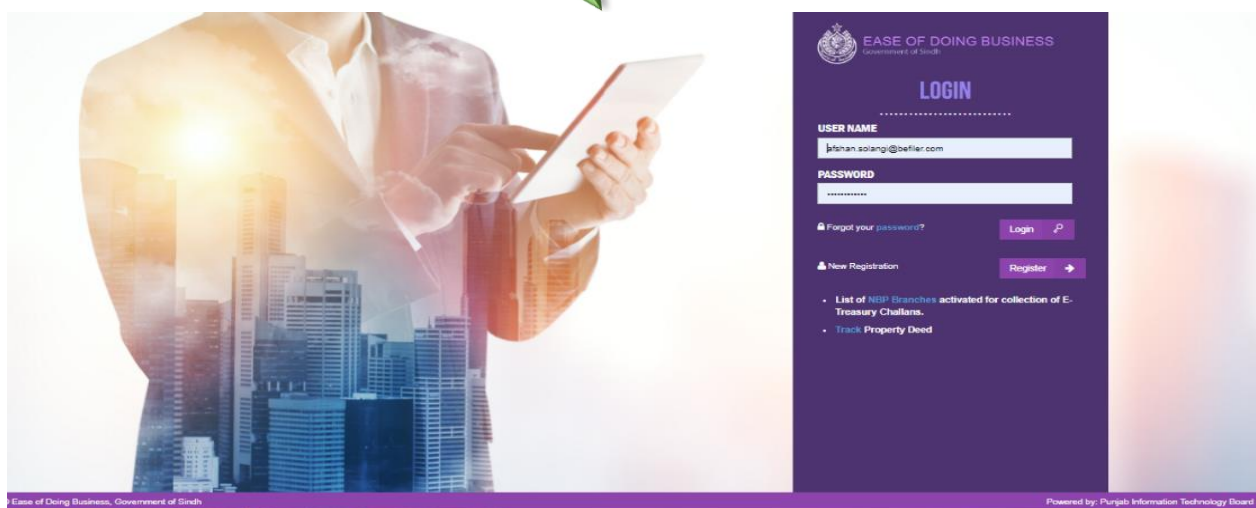
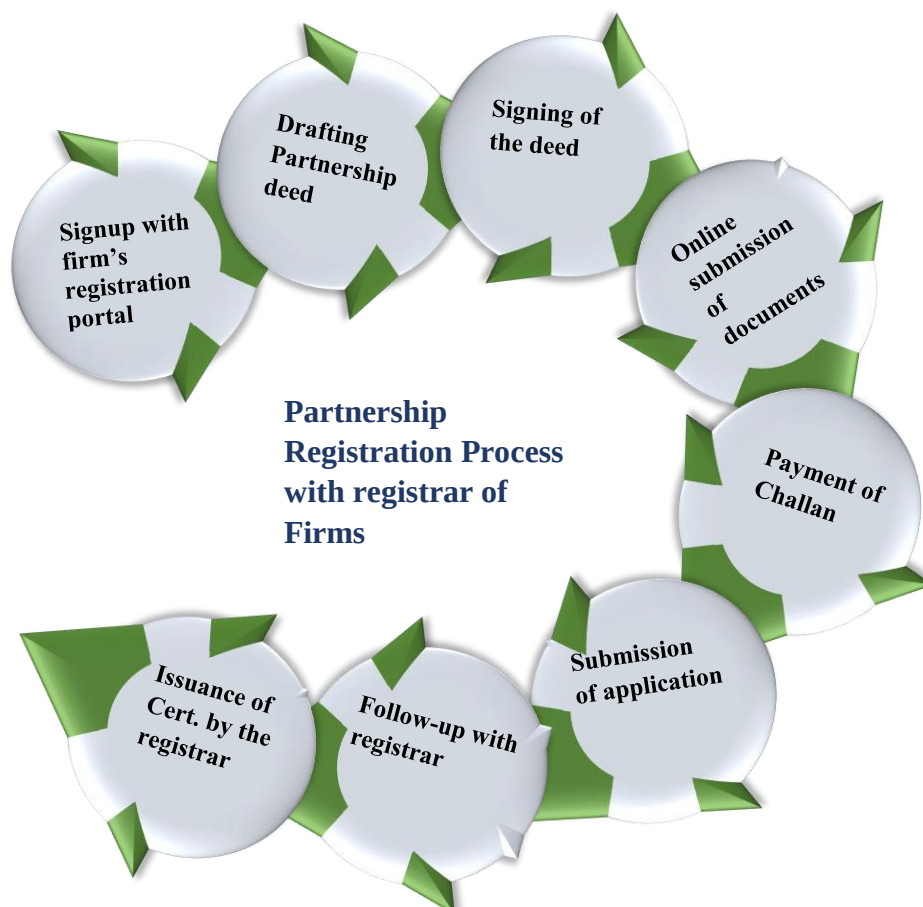


ILLUSTRATION

Waseem and Naseem, passionate about photography, open a studio together as general partners. They equally share ownership, profits, and responsibilities, collaborating on various projects. However, with shared success comes shared financial responsibility. Both Waseem and Naseem have unlimited liability for the studio's debts, meaning personal assets may be used to settle business obligations. It's important to note that they are not only jointly responsible but also severally responsible, allowing creditors to pursue either partner individually for the entire debt, emphasizing both shared and individual financial risks in their photography studio partnership.

PROCESS FOR REGISTRATION:

As discussed above, partnerships are registered with the relevant provincial department. The process of registration is as follows:



Registrar of Firms' Online Registration Portal

PARTNERSHIP AGREEMENT AND ITS CONTENTS

Partnership agreement is the basic document which determines mutual rights and duties of the partners and their rights and duties in relation to the limited liability Partnership.

A Partnership agreement is a legally binding document that outlines the terms, rights, and obligations of the partners in a Partnership. It serves as a framework for the Partnership's operations, decision-making processes, profit-sharing arrangements, and dispute resolution mechanisms. The specific contents of a Partnership agreement may vary depending on the needs and preferences of the partners, but here are some common elements typically included:

01**Name and address of the Partnership**

The agreement should include the name and registered address of the Partnership, which must comply with the naming guidelines provided by Partnership act, 1932.

02**Nature of business**

The agreement should describe the nature of the business that the Partnership will engage in, including the products or services offered.

03**Partnership Info.**

The agreement should clearly state the name of the Partnership, the business purpose or activities, and the effective date of the agreement.

04**Contributions**

Partners' contributions to the Partnership, including capital investments, assets, intellectual property, or any other resources, should be specified. This section may also outline guidelines for additional contributions or adjustments to capital contributions in the future.

05**Profit-Sharing and Loss Allocation**

The agreement should define how profits and losses will be distributed among the partners. This may include specifying the percentage or ratio in which profits will be shared, as well as how losses will be allocated among the partners.

06

**Decision-Making
Authority**

Partners should determine the decision-making process within the Partnership. This section may outline rules for voting, decision thresholds, and any specific areas where unanimous consent is required.

07

**Management and
Partners' Roles**

The agreement should specify the roles and responsibilities of each partner within the Partnership. It may outline duties, obligations, and expectations for each partner, including any limitations on their authority or areas of specialization.

08

**Admission and
Withdrawal of Partners**

The process for admitting new partners or allowing existing partners to withdraw should be clearly defined. This may include procedures for valuation of the Partnership, buy-in requirements, or restrictions on partner transfers.

09

Dispute Resolution

The agreement should outline procedures for resolving disputes or conflicts that may arise between partners. This may include mediation, arbitration, or other mechanisms to address disagreements.

10

**Non-Compete and
Confidentiality**

Partners may include clauses to protect the Partnership's interests, such as non-compete agreements or confidentiality obligations to safeguard proprietary information or trade secrets.

11

**Dissolution and
Winding Up**

Procedures for the dissolution and winding up of the Partnership should be specified. This includes settling liabilities, distributing assets, and outlining the steps to be taken upon the termination of the Partnership.



Remember! Partnership agreement is the most important document. It is important for partners to carefully review and draft a Partnership agreement, considering their specific needs and circumstances. Consulting with legal professionals experienced in Partnership agreements is recommended to ensure that the agreement accurately reflects the intentions of the partners and complies with relevant laws and regulations.

Expert Tip

The partnership deed must be executed on a stamp paper of Rs. 2,000 in Sindh, Rs. 1000/- in Punjab, Rs. 500 in Khyber Pakhtunkhwa, Rs. 1,000/- in Balochistan and Rs. 1,000/- in Islamabad Capital Territory.

TAXATION OF A GENERAL PARTNERSHIP



Taxable profits of Partnerships are taxed in Pakistan as per slab rates applicable to AOP and Individuals. Net taxable profits of the Partnership up to Rs. 600,000/- is exempt and any amount exceeding the above threshold shall be taxable as per applicable slab rates.



Partnership is generally not a withholding agent for Income tax purposes, but in case its turnover/ sales exceed Rs. 100 million in a financial year, it shall be deemed as withholding agent and shall be liable to withhold income tax at prescribed rates on payments made by such businesses.

It is advisable to withhold income tax on payments of taxable salaries to employees and other payments. The taxes so deducted are deposited to the FBR within seven days of such deduction.

Expert Tip

Income tax withholding is not applicable to payments made not exceeding basic threshold. In case of services, the threshold is Rs. 30,000 and in case of supplies is Rs. 75,000/- in aggregate for a single person or business in a financial year.



Partnerships may be subject to GST depending upon the nature and volume of business. GST is applicable to Tier -1 retailers, dealers, manufacturers (Other than cottage Industry), distributors and wholesalers. The standard rate of GST is 18%, but depending upon the nature of goods or any other criteria the rates may be lesser or zero rated or exempt.

In case of provision and rendition of services, Partnership may be subject to sales tax on services. Sales tax rates applicable shall depend upon nature of services and any other criteria as may be specified under relevant provincial legislation. Sales tax on services is a provincial subject and every province is administering and collecting it including Islamabad, capital territory.



The standard SST rate in Punjab province is 16%, 13% in Sindh 15% in Balochistan, 15% in Khaybar Pakhtunkhwa and 16% in Islamabad Capital Territory. The standard rate applies to most services. However, some services are subject to reduced SST rates, while others may be exempt from SST.



Remember! It is always recommended that before supplying goods or services, make sure whether goods or services intended to be provided are subject to sales tax or not.

It is important for businesses to be aware of the SST rates applicable to their services and to ensure that they are collecting and remitting the appropriate amount of SST to the relevant Revenue Authority. Failure to comply with SST requirements can result in penalties, fines, or legal action.

RECORD KEEPING CONSIDERATIONS OF A GENERAL PARTNERSHIP

Partnerships are required to keep certain records as required under Partnership Act, 1932 and Income Tax Ordinance, 2001.

A Partnership is required to prepare and keep proper accounts which may be audited by an auditor. A Partnership is required to maintain at least the following:

- 01 Particulars of all sums of money received and expended by the Partnership and the matters in respect of which the receipt and expenditure takes place;
- 02 Record of the assets and liabilities of the Partnership;
- 03 Statements of cost of goods purchased, inventories, work-in- progress, finished goods and cost of goods sold;
- 04 Supporting evidences of expenses, payments made, etc.; and
- 05 Any other records decided by the partners or notified by relevant authorities e.g. FBR.



Good to Know

Every partnership has to pay taxes on net taxable profits. That means, to arrive net taxable profits, expenses incurred by the partnership business are claimed as a deduction. Consequently, lesser tax is chargeable. **Remember!** The expenses so claimed should have supporting evidences like vouchers, invoices etc. In case of failing to provide such documentary evidence, the expenses so claimed will be disallowed, consequently the tax burden will

Expert Tip

You have to keep complete record of books of accounts of your business at least for six years. Your annual tax return may be selected for audit by FBR or for audit of monitoring of withholding taxes if you are a withholding agent.

POST REGISTRATION COMPLIANCE

After the registration of a Partnership in Pakistan, there are several post-registration compliance requirements that the partnership must meet. Here are some key compliance requirements for partnerships:



Compliance with tax laws: Every partnership has to file annual income tax return along with audited accounts within 3 months of the end of the tax year. A partnership is also required to file quarterly withholding tax statements, annual withholding statement and annual employer statement if it is a withholding agent or it has deducted income taxes on payments to employees or other payments.



Compliance with Sales tax Act: If a partnership is registered with sales tax, it is required to file monthly sales tax returns. It has also to file any changes in particulars like address of the business, nature of activity etc.



Compliance with partnership agreement: A partnership is required to comply with the terms of its partnership agreement and to any amendments to the agreement that may be made from time to time.



Filing of changes: A partnership is required to file any changes in its partners, registered office, capital structure, or other relevant information or change in the partnership deed, with the registrar of firms.



Appointment of Auditor: Generally, partnership is not required to appoint an auditor unless the partnership agreement dictates otherwise. An auditor or auditors of a partnership may be appointed after seeking approval of partners through resolution passed by a majority of partners or as procedure mentioned in the partnership agreement.



Compliance with other laws: If a partnership is registered with EOBI or SESSI, it has to file monthly returns and make payment of contributions payable within due date.

**Good to Know**

If your business has no activity at all, you are still required to file Income tax return of your partnership. You will file NIL return in this case.

Likewise, withholding agents are required to file the quarterly withholding statements, annual withholding statement and annual employer statement, even if there is no tax withheld.

Overall, partnerships in Pakistan are required to comply with various legal and regulatory requirements after their registration. Failure to comply with these requirements can result in penalties, fines, or legal action. It is important for partnerships to consult with legal and financial advisors to ensure that they comply with all legal and regulatory requirements.

DISSOLUTION OF PARTNERSHIP

The dissolution of a partnership refers to the termination or cessation of the partnership's existence. The Partnership Act of 1932 provides guidelines for the dissolution process in Pakistan.

Modes of Dissolution:

A partnership can be dissolved through any one of the following modes:

Dissolution by Agreement: Partners may mutually agree to dissolve the partnership. The agreement can be verbal or in writing, but it is advisable to document it in writing to avoid disputes.

Dissolution by Expiration of Term or Completion of Undertaking: If the partnership has a fixed term or a specific undertaking mentioned in the partnership agreement, it dissolves automatically upon the expiration of the term or completion of the undertaking.

Dissolution by Court Order: The court may order the dissolution of a partnership in certain circumstances, such as incapacity of a partner, partner's misconduct, or persistent breach of partnership agreement.

Compulsory Dissolution: Under certain conditions, the Partnership Act mandates the dissolution of a partnership, such as when all partners except one are declared insolvent, or the business becomes illegal due to changes in law or regulations.

PROCESS OF WINDING UP AND DISSOLUTION

The process involves settling the affairs of the partnership, distributing its assets, and terminating its legal existence.

- 01 Winding Up:** After the partners decide to dissolve the partnership, the winding-up process begins. It involves settling the partnership's affairs, including the settlement of liabilities, realization of assets, and distribution of remaining funds to partners.
- 02 Drafting Dissolution Deed:** After settling all the liabilities and other obligations the partners decide to distribute the assets as agreed mutually or as provided in the partnership agreement. Thereafter the dissolution deed is drafted and signed by all the partners.
- 03 Application for Dissolution:** A copy of dissolution deed is submitted with the registrar along with application for deregistration. It is also mandatory to publish a public notice through newspaper having wide circulation in the province of registration.
- 04 Application for Deregistration:** After deregistration with registrar of firms, application is submitted with FBR for deregistration for income tax and for sales tax if applicable. A copy of dissolution deed is also submitted with FBR.



Expert Tip

In case of dissolution of partnership, each and every partner has to appear in person with the relevant registrar of firms upon application for deregistration of the partnership. This procedure is same across the country.



It is advisable to consult legal professionals to ensure compliance with the Partnership Act and any additional regulations or requirements that may apply to your specific situation. Professional guidance can help navigate the dissolution process, protect the interests of the partners, and ensure a smooth transition out of the partnership.

INTERACTIVE ACTIVITY: Participants work through a scenario of solving various challenges of a partnership

Background: TechNet Solutions is a startup founded by two partners, Ali and Akmal, specializing in developing cutting-edge software solutions. Both partners have distinct roles, with Ali managing the technical aspects, and Akmal overseeing business development and client relations.

Challenges:**1. Decision-Making Struggles:**

- **Issue:** Ali and Akmal frequently clash over major decisions, such as product development directions and marketing strategies.
- **Challenge:** The partnership lacks a structured decision-making process, leading to conflicts and delays in crucial choices.

2. Financial Discrepancies:

- **Issue:** Disparities in financial contributions and unclear profit-sharing mechanisms have caused resentment.
- **Challenge:** Without a transparent financial model, trust erodes, impacting the partnership's overall health.

3. Client Management Conflicts:

- **Issue:** Disagreements arise regarding client management approaches, affecting the company's reputation.
- **Challenge:** The lack of a unified client engagement strategy hampers the business's growth potential.

4. Work-Life Balance Strain:

- **Issue:** Ali and Akmal struggle to maintain a healthy work-life balance, leading to burnout.
- **Challenge:** The partnership's success is at risk as key team members face exhaustion and reduced productivity.

5. Succession Planning Concerns:

- **Issue:** The partners haven't discussed a clear succession plan in case one decides to leave.
- **Challenge:** The absence of a plan jeopardizes the company's stability and raises uncertainties among employees and clients.

Activity Instructions:**1. Case Presentation:**

- Divide participants into small groups.
- Distribute the case study and instruct each group to analyze the challenges presented.

2. Group Discussions:

- Groups discuss the root causes of the challenges and propose potential solutions.
- Encourage participants to apply partnership principles discussed in the session.

3. Group Presentations:

- Each group presents its analysis and recommendations.
- Encourage open discussion and alternative perspectives.

4. Q&A Session:

- Facilitate a Q&A session, allowing participants to seek clarification and discuss the proposed solutions.

5. Open Forum:

- Lead a broader discussion on partnership challenges, drawing parallels with real-world scenarios.
- Discuss strategies for effective decision-making, financial transparency, and maintaining a healthy work-life balance in partnerships.

6. Reflection and Takeaways:

- Conclude the session with a reflection on key insights gained from the case study analysis.
- Encourage participants to share their personal takeaways and lessons learned.

RESOURCES: Sample Partnership Agreement

PARTNERSHIP DEED

NEXT LEVEL ENTERPRISES

This DEED OF PARTNERSHIP is made and entered into this agreement, at Karachi, on this th **day of March, 20** AMONG:

MR. _____ S/o. Mr. _____, Muslim, Adult, holding CNIC No. XXXXX-XXXXXXX-X, Resident of _____ Karachi, hereinafter referred as the **FIRST PARTNER**.

AND.

MR. _____ S/o. Mr. _____, Muslim, Adult, holding CNIC No. XXXXX-XXXXXXX-X, Resident of _____ Karachi, hereinafter referred as the **SECOND PARTNER**.

AND.

MR. _____ S/o. Mr. _____, Muslim, Adult, holding CNIC No. XXXXX-XXXXXXX-X, Resident of _____ Karachi, hereinafter referred as the **THIRD PARTNER**.

Which expression shall, where ever the context so permits, means and include his/ her successors and interest and permitted assigns; for each the above party respectively; and collectively they shall be called as PARTNERS of the Partnership.

WHEREAS, the above parties, engaged in the commercial activities, have decided to establish and entered into this partnership, to formalize the business title in a professional manner, under the name and style “NEXT LEVEL ENTERPRISES” to undertake and flourish the business. NOW THIS DEED WITNESSETH THAT the parties hereto, hereby agree that the Partnership, for the benefit and mutual advantage of the Partners, shall be carried on terms and conditions mentioned hereunder:

1. The name of the Partnership shall be ***NEXT LEVEL ENTERPRISES*** or any other name as the Partners may agree from time to time.
2. The business activities of the Partnership shall be carried out at _____ and upon such other premises or places as the

Partners may, from time to time determine and the Partners may change the address as and when required.

3. The business of the Partnership shall be as follows, or any other lawful business that is agreed by all the Partners:
 - a). The principal business of the partnership is to engage in the business of to engage in the business of Trading, Supplies, Purchases, Sales and allied activities of any kind of goods, stock, machines, equipment, moveable and immoveable properties, or any other item of what so ever named.
 - b). To advise, assist, promote, encourage, or implement schemes and projects relating to industrial, commercial, and for the expansion, amalgamation, or reconstruction of enterprises or undertakings of all kinds, and for improvement of any industry.
 - c). To make export and make local sales of all types of goods items, as the Partners may decide from time to time.
 - d). To advise, assist, promote, encourage, or implement schemes and projects relating to industrial, commercial, and for the expansion, amalgamation, or reconstruction of enterprises or undertakings of all kinds, and for improvement of any industry.
 - e). To arrange loan, lease, advance, borrowings or other funds requirements for the purpose of Partnership's business.
 - f). To do, engage all other activities that are necessary to carry out the main business activities of the Partnership.
 - g). To do and engage in any lawful business and to take all necessary steps and actions in connection therewith and ancillary thereto as the Partners may decide from time to time.
4. The Partnership or any Partner of the Partnership shall not engage in any unlawful business; or a business which is prohibited by any other law, like Banking, Insurance, Leasing and Investment activities unless necessary legal requirements for such activity (ies) are fulfilled by the partnership.
5. Drawings shall be made by mutual consent of all the Partners.
6. That all the securities and moneys belonging to the Partnership, except such sums as may be required for current expenses, shall be deposited with the bankers of the Partnership or with such other bank or banks as the Partners may appoint from time to time.

7. The bank account will be operated in the name of the Partnership by each Partner Singly as agreed by all or by two or more Partners jointly as agreed by all or by all partners jointly as agreed by all. All the drawings / payments made through the cheques should be supported with relevant approved vouchers, bills etc.
8. No Partner shall, without the consent of the other Partners, for that purpose, do any of the following:
 - (a) Lend any money or deliver any goods belonging to the Partnership otherwise than in usual course of business.
 - (b) Release or compound any debt or claim owing to the Partnership otherwise than in usual course of business.
 - (c) Guarantee the payment or discharge of any sum or claim otherwise than in usual course of business.
 - (d) Execute any deed or stand surety of any person or act in any other manner whereby the property of the Partnership may be liable.
 - (e) Make any payment for or acknowledge any liability of the Partnership otherwise than in usual course of business.
 - (f) Transfer their interest in the Partnership, by mortgage, sale or otherwise introduce or attempt to introduce any person into the Partnership as a Partner or otherwise.
9. The Partners shall at all time attend diligently to their duties in the conduct of the business of the Partnership and shall carry on the same to the greatest common advantage.
10. Each Partner shall be just and faithful to the other Partners and shall render true accounts and full information of all things affecting the Partnership.
11. That all the Partners hereto, hereby agree that they have No right to do business which is the principal business of the partnership as mentioned in Clause 3 (a) of this agreement, in the capacity of an individual, or as a Partner, and the parties shall have the objection in this regard.
12. The Partners shall regularly pay and discharge their separate debts and liabilities with the consent of the Partners and shall indemnify the Partnership against the same. Partners of the Partnership shall not be responsible or liable for the acts of the other individual Partners other than in the normal course of business.

13. No Partner shall deal with the assets of the Partnership otherwise than in the usual course of business of the Partnership and any out-of-pocket expenses incurred by any Partner on his private account from the funds of the Partnership shall be forthwith refunded.
14. The Partners shall keep proper books of account and make entries therein of all receipts, payments and other matters as are usually done and entered in books of account kept by persons engaged in business similar to that of the Partnership.
15. The financial year of the Partnership for accounting year shall close on 30th June, each year. The Partnership's accounts may be audited through a qualified auditor. Copies of the balance sheet shall be supplied to each Partner for his record and reference. Prior to this, quarterly meeting of the Partners shall be held to assess the working/operation for the betterment of the Partnership and for future action.
16. Separate books of account of the Partnership may be kept at each business center of the Partnership, (if operated separate business centers and each Partner shall have a right to access and to inspect any copy of the same).
17. The divisible profits or losses of the Partnership will be determined after pooling of gross revenue, and pooling all business expenses incurred as per generally accepted accounting principles.
18. A partner may receive a reasonable amount of salary on regular basis. This shall be calculated based on ability, experience, education and professional qualification or any other reasonable criteria as agreed upon with the mutual consent of all the Partners.
19. The profits and losses of the Partnership are to be drawn under generally accepted accounting principles, and shall be divided by the partners in the following ratio:

Name of partner	Sharing Ratio
Mr. A	25%
Mr. B	25%
Mr. C	50%

20. During the subsistence of the Partnership, accounts will be prepared on or before the 30th day of June each year. Such accounts, which include Balance Sheet and Profit & Loss Account, shall be signed by each Partner and after such signature each Partner shall be bound by such accounts.

PROVIDED ALWAYS that in the event of any manifest error being found and notified after such signature, such error shall be rectified. The copies of all relevant records signed

by all Partners shall be supplied to all Partners for their record.

21. If any Partner shall, at any time during the subsistence of the Partnership, be desirous of retiring from the Partnership, it shall be competent for him to do so.

PROVIDED ALWAYS, that he shall in such a case give at least three calendar months' notice of his intention in writing to do so in advance. However, this condition may be waived by consent of all the continuing partners if agreed otherwise.

22. The Partners may by mutual consent of all the Partners admit any person as a Partner of the Partnership at any stage if the business of the Partnership demands. The incoming Partner shall follow the terms and conditions as already accepted and followed by all Partners.
23. That in the case of death of any Partner, the total amount standing to his credit in the books of the Partnership as reflected by accounts drawn up to the date of death shall be payable to the legal heirs on the basis of the heirship or retirement certificate.
24. Provided that in the case of death / retirement, if the Partnership is unable to pay all the dues to the legal heirs of the declared or retired person or there is no final settlement of accounts the retired Partner or his legal heirs are entitled to claim their right @ KIBOR per annum on the amount of share in the property of the Partnership or to share the profit earned by the Partnership after retirement / death as may be attributable to the use of his share of property of Partnership.
25. Resignation, retirement or death of a Partner will not mean automatic dissolution of the Partnership, which is to continue among the remaining Partners and can only be dissolved with mutual consent of all existing Partners. In case there are two Partners one of them expires, the legal heirs so declared will be deemed to be the Partner till the settlement is made.
26. In case of termination of Partnership by unanimous decision, or on death or retirement of a Partner the remaining Partner(s) shall, subject to the terms hereinafter and above mentioned, be entitled at their option and in the ratios of their profit sharing to purchase the share of the deceased or retiring Partner(s), as the case may be within a period three month.

PROVIDED that if any of the remaining Partner(s) has not availed the option, other remaining Partners can exercise their option and in the case of there being no other but one Partner desirous of exercising the option, then such Partner can acquire the entire share. The option may be exercised upon giving a notice in writing to that effect at any time within four calendar months from the date of the cessation of the outgoing Partner.

PROVIDED ALSO that if the aforesaid option is not exercised within the time herein before mentioned the Partnership business shall be wound up as if the Partnership had, at the time of ceases, been determined by affliction of time.

27. On dissolution of the Partnership, general accounts shall be made up of all capital, credits, debts and assets which shall be caused to be revalued and if need to be the same shall be sold or distributed among the Partners at market value, after making due provisions for payment of debts and liabilities or as agreed by the all the partners unanimously. The balance shall be paid in the first instance in settlement of the capital brought in by each Partner and the balance then arising shall be divided between the Partners in proportion to their shares.
28. Whenever any difference arises between the Partners, touching the true intent or construction, or the incidents or consequences of these present, or of the statutes, or touching anything then or thereafter done, executed, omitted or suffered in pursuance of these presents, or of the statutes, or touching any breach or alleged breach of these presents, or claim on account of any such breach or alleged breach or otherwise relating to the premises, or to these presents or to any statute affecting the Partners, the Partners will first make all possible efforts to resolve such differences mutually, if however after the expiry of three weeks such differences persist then all such differences may be referred to Arbitrator(s) appointed by the all Partners by mutual consent under the Arbitration Act, 1940. If the Arbitrator(s) resolved the difference by issuing a verdict, the same shall be binding upon all the Partners and in case of differences against the Arbitrators, the Arbitrators may appoint an umpire by consent and the decision of the umpire on the referred matters shall be final in all respects and shall be binding on all Partners but the partners may challenge the decision in any Court of Law if not prohibited by any law for the time being in force.
29. Provided always that is any circumstances a Partner or Partners may approach to the court of law in relation to the mutual disagreement and other business issues as the case maybe.

IN WITNESS WHEREOF THE PARTIES hereto set their respective hands on the day, month and year first above written.

Signed, and delivered by within named MR. _____ S/o. Mr. _____, CNIC: XXXXX-XXXXXXX-X The First Partner	
Signed, and delivered by within named MR. _____ S/o. Mr. _____, CNIC: XXXXX-XXXXXXX-X	

The Second Partner	
Signed, and delivered by within named MR. _____ S/o. Mr. _____, CNIC: XXXXX-XXXXXXXX-X The Third Partner	

In the presence of witnesses:

1. Sign

Name

N.I.C.:

2. Sign

Name

N.I.C.:

LIMITED LIABILITY PARTNERSHIP

IN THIS MODULE:

AT A GLANCE OVERVIEW:

1. Brief description of a limited liability partnership
2. Its General Features, advantages and disadvantages
3. Its formation and compliance and dissolution.

- ✓ Expert Tips
- ✓ Good To Know Notes
- ✓ Illustrations
- ✓ Important Notes

INTRODUCTION

Limited Liability Partnership (LLP) is a business structure that combines the flexibility and tax benefits of a partnership with the limited liability protection of a company. It is a relatively recent addition to the business structures available in many countries.

The concept of LLP first originated in the United States in the late 1980s and early 1990s, in response to concerns about the limitations of traditional partnership structures. In 1991, the state of Texas passed the first LLP legislation, followed by several other states in the US. LLPs then became available in other countries, including the UK, Canada, Australia, and Pakistan.

In Pakistan, the concept of LLP was introduced in 2017 through the Limited Liability Partnership Act. Prior to this, the only options available for small businesses were sole proprietorship, partnership structures and Private/Public Limited Company. The introduction of LLP aimed to provide a more flexible and modern business structure, allowing entrepreneurs to limit their liability while maintaining the tax benefits of a partnership. The LLP Act in Pakistan provides a legal framework for the formation, operation, and dissolution of LLPs in the country, offering a new option for small businesses to operate and grow.

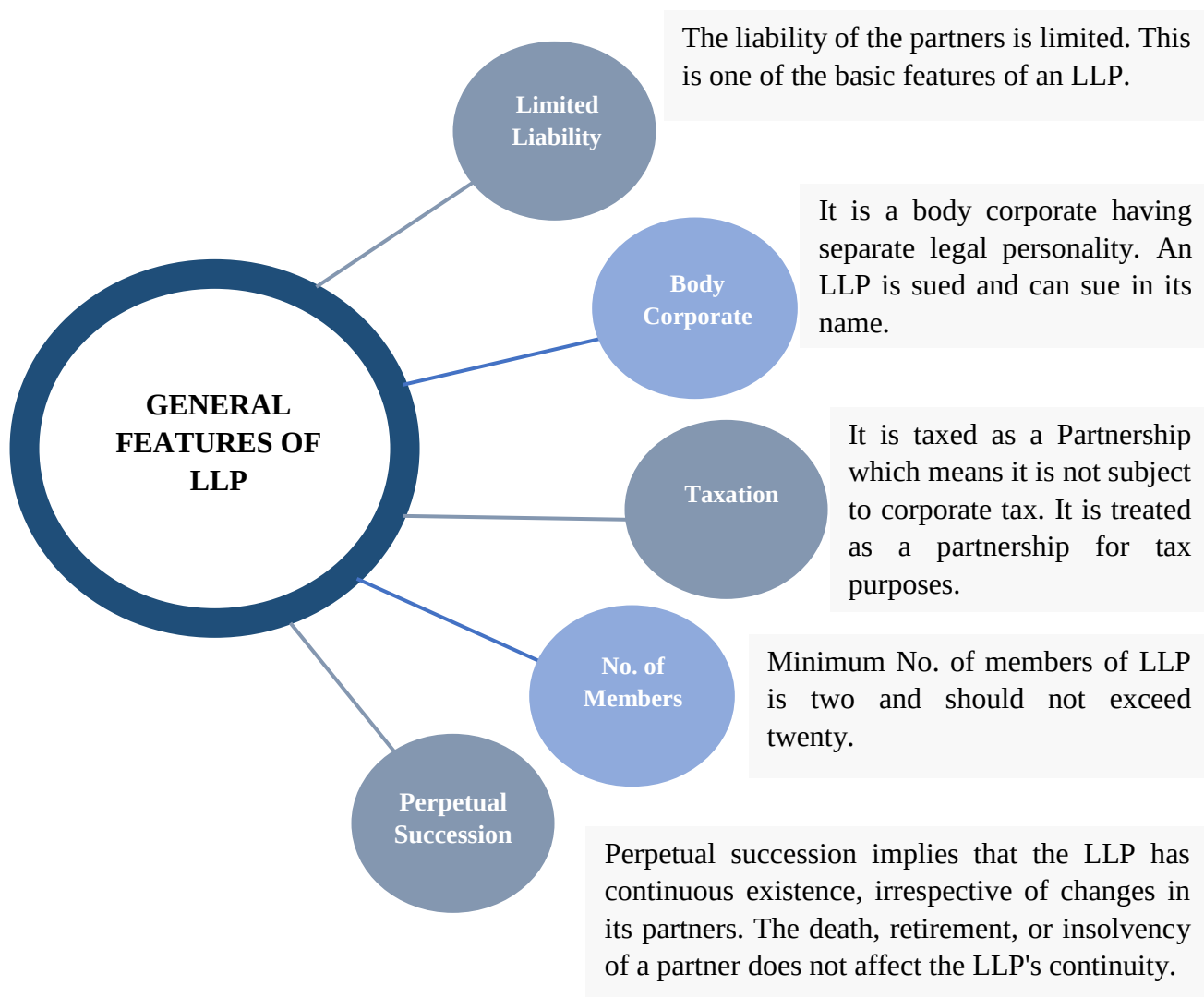
DEFINITION

1.

What is a Limited Liability Partnership?

Any partnership registered under the provisions of a limited liability agreement and registered under Limited Liability Partnership Act, 2017. It is an association formed by two or more persons to carry on a trade or business, with each contributing money, property, labor, or skill, and with all expecting to share in profits and losses and having the liability of the owners limited to their investment.

GENERAL FEATURES OF AN LLP



ADVANTAGES AND DISADVANTAGES OF LLP

Advantages:

Limited liability partnerships operate in a manner similar to general partnerships, but with significant legal differences.

The following are some of the key characteristics of LLPs in Pakistan:

1 Liability Protection

In an LLP, partners have limited liability protection, meaning that they are not personally liable for the debts and obligations of the business beyond their investment in the partnership.

2 Separate legal entity

LLP is a body corporate and is considered a separate legal entity from its partners, which means that it can own property, enter into contracts, and sue or be sued in its own name.

3 Flexible Management

Partners in an LLP have more flexibility in the management of the business. They can choose to participate in the management of the business or delegate it to designated managers.

4 Minimum Compliance

LLP has minimum tax and secretarial compliance requirements.

5 Transferability of rights

The rights of a partner to a share of the profits and losses of the LLP and to receive distributions in accordance with the limited liability partnership agreement are transferable either wholly or in part.

Overall, LLPs offer the advantages of limited liability protection and tax benefits of a partnership, while allowing for greater management flexibility and ease of operation compared to traditional Company.

Disadvantages:

While Limited Liability Partnerships (LLPs) offer many advantages, there are also some potential disadvantages to consider:



Personal liability for negligence/ fraud: While partners are not personally liable for the debts and obligations of the business beyond their investment in the partnership, they can still be held personally liable for their own negligence or wrongful acts.



Complexity of LLP Agreement: The LLP agreement is a legally binding document that outlines the terms and conditions of the partnership and the rights and obligations of the partners. Developing this agreement can be complex and may require the assistance of legal professionals.



Limited investment options: LLPs cannot issue shares to raise capital, which limits investment options compared to traditional corporations.



Difficulty in adding or removing partners: Adding or removing partners from an LLP can be more complex than in other business structures, as it requires an amendment to the LLP agreement and may require the consent of all partners.



Appoint of External Auditor: An LLP is required to appoint an auditor who should be a Chartered Accountant. Such requirement increases cost and compliance of a limited liability partnership.

Overall, while LLPs offer many advantages, there are also potential disadvantages to consider. Entrepreneurs and professionals in Pakistan should carefully evaluate their options and consult with legal and financial advisors to determine the best business structure for their specific needs and circumstances.

LEGAL REQUIREMENTS FOR REGISTRATION

01

At least two partners: An LLP must have at least two partners, who can be individuals or other businesses. Any individual or body corporate or company may become a partner in a limited liability partnership.

02

Name reservation: A name for the LLP must be reserved with the Securities and Exchange Commission of Pakistan (SECP) prior to registration.

03

Signup with SECP portal: The designated partners of the LLP must obtain a digital signature from a certifying authority for electronic filing of documents with

04

LLP agreement: An LLP agreement must be drafted and executed by the partners of the LLP. The agreement should outline the terms and conditions of the partnership and the rights and obligations of the partners.

05

Documents required: Valid computerized National ID card of the partners and witnesses to the LLP deed will be required.

06

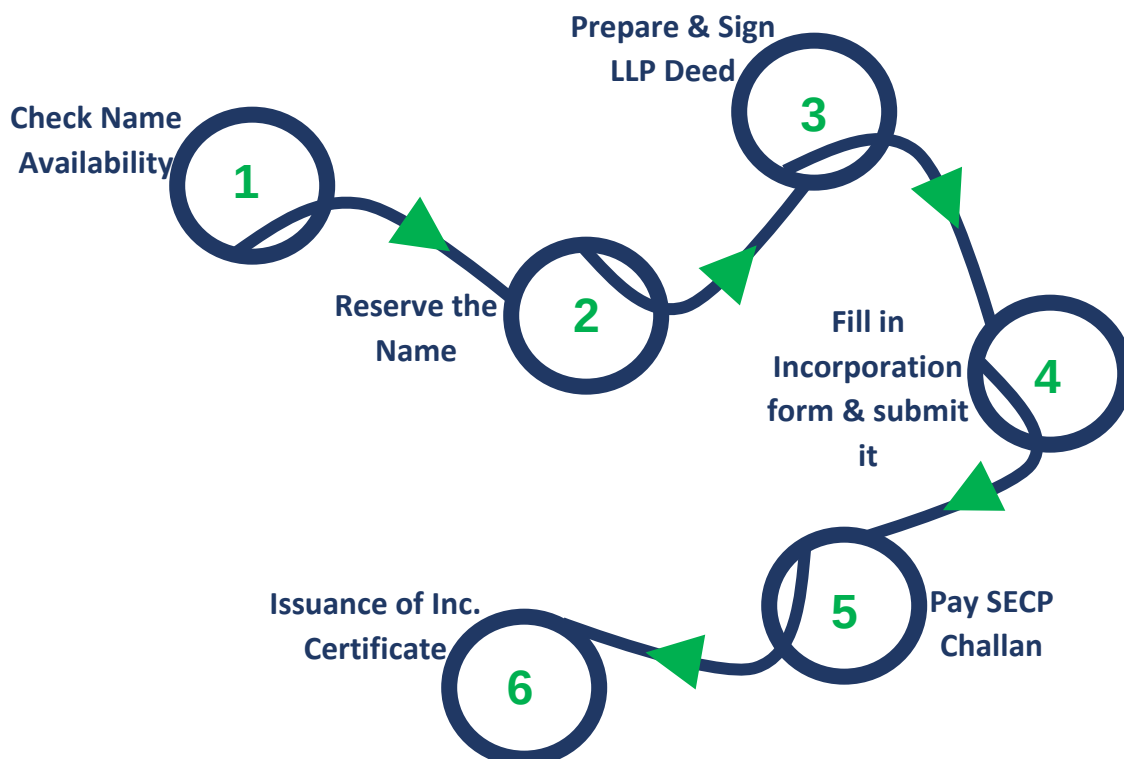
Registered office: The LLP must have a registered office in Pakistan, which must be declared in the application for registration.

**Good to Know**

In case you do not have acquired your office, you can mention your residential address as correspondence address at the time of incorporation of your LLP and can report your registered office address within 28 days.



Remember! To sign-up with SECP portal, your phone number must be registered against your National Identity Card.

PROCESS FOR REGISTRATION

**Good to Know**

The most important consideration when choosing a name is ensuring that no other person or entity is currently using the name. This consideration is guided by two factors.

First, your use of a business name may infringe on the trademark or service mark rights of others. Infringing on trademark or service mark rights may result in legal complications.

Second, the SECP will not register a new LLP with the same name or substantially similar name as an existing LLP.

Thus, you may wish to search the trademarks and LLP names in use to ensure that your desired name is available.

LLP AGREEMENT AND ITS CONTENTS

Limited liability agreement is the basic document which determines mutual rights and duties of the partners and their rights and duties in relation to the limited liability partnership.

The contents of an LLP agreement may vary depending on the needs and requirements of the partners, but generally, the following key contents are included.

1

Name and address of the LLP: The agreement should include the name and registered address of the LLP, which must comply with the naming guidelines provided by the Securities and Exchange Commission of Pakistan (SECP).

2

Nature of business: The agreement should describe the nature of the business that the LLP will engage in, including the products or services offered.

3

Capital contribution: The agreement should specify the amount of capital contributed by each partner to the LLP. This includes the amount of cash, property, or services that each partner is contributing to the partnership.

4

Profit and loss sharing: The agreement should detail how profits and losses will be shared among the partners. This typically includes a percentage of profits or losses that each partner is entitled to, as well as any conditions or restrictions on distributions.

5

Management and decision-making: The agreement may specify the management structure of the LLP, including how decisions will be made, and who has the authority to make those decisions. It should also identify any designated managers or managing partners.

6

Admission and withdrawal of partners: The agreement may describe the process for admitting new partners to the LLP, as well as the process for withdrawing or expelling existing partners.

7

Transfer of partnership interests: The agreement may outline the conditions and process for transferring partnership interests between partners or to third parties.

8

Dispute resolution: The agreement may outline a process for resolving disputes among partners, such as through arbitration or mediation.

9

Liability protection and indemnification: The agreement should specify the extent of liability protection provided to the partners, as well as any indemnification provisions that may protect them against legal action

10

Provisions for duration and termination of LLP: The agreement may specify the duration of the LLP, and under what conditions it can be terminated.

11

Dissolution and winding up: The agreement should specify the conditions and process for dissolving the LLP and winding up its affairs.



Expert Tip

Remember! The LLP agreement is a critical document that outlines the terms and conditions of the partnership and the rights and obligations of the partners. It is recommended that the agreement be drafted by legal professionals and reviewed by all partners before it is executed. It is advisable to include all terms and conditions agreed to by the partners in the limited liability agreement.

**Good to Know**

The LLP agreement /Deed must be executed on a stamp paper of appropriate value as determined by the stamp act of each province/ capital territory.

Currently, the value is Rs. 2,000 in Sindh, Rs. 1000/- in Punjab, Rs. 500 in Khyber Pakhtunkhwa, Rs. 1,000/- in Balochistan and Rs. 1,000/- in Islamabad Capital Territory.

TAXATION OF LLP

All businesses have one thing in common. They need to pay and file taxes. It does not matter if you are sole proprietorships or have a limited liability partnership, the FBR will still expect you to file your taxes every year.

Limited Liability Partnerships are taxed as partnerships and we have already discussed taxation of partnership in the previous module.

RECORD KEEPING OF AN LLP

Limited Liability Partnerships are required to keep certain records as required under Limited Liability Partnership Act, 2017 and Income Tax Ordinance, 2001.

The limited liability partnership is required to maintain proper books of accounts relating to its affairs for each year of its existence on accrual basis and according to double entry system of accounting. The LLP is required to appoint an auditor who shall be a chartered Accountant. It is required to prepare financial statements which shall be audited by the auditor. The LLP is required to maintain at least the following:

- 1 Particulars of all sums of money received and expended by the LLP and the matters in respect of which the receipt and expenditure takes place;
- 2 Record of the assets and liabilities of the LLP;
- 3 Statements of cost of goods purchased, inventories, work-in- progress, finished goods and cost of goods sold;
- 4 Any other records decided by the partners; and
- 5 Any other Any other particulars as notified by SECP or FBR.



Do not neglect to open a business bank account! Using your personal bank account for business deposits and expenses is a huge mistake for a number of reasons. First, if you formed an LLP or a company to protect your personal assets, you'll basically give up that protection if you commingle personal and business funds. Second, on a day-to-day level, mixing your business transactions with personal transactions will make it impossible to do the types of simple financial management. Run, do not walk, to your local bank and open a business bank account as soon as you're ready to launch.

POST REGISTRATION COMPLIANCE

After the registration of a Limited Liability Partnership (LLP) in Pakistan, there are several post-registration compliance requirements that the LLP must meet. Here are some key compliance requirements:



Appointment of Auditor: Limited liability partnerships are required to appoint a statutory auditor who shall be a chartered accountant. The accounts and the financial statements as per such accounts is audited by the LLP's auditor.



Filing of annual statement of accounts: Usually an LLP is not required file an annual statement of accounts along with audited financial statements with the SECP. However, SECP may notify LLPs based to file annual statement along with the Audited accounts audited by its auditor.



Compliance with tax laws: Every LLP has to file annual income tax return along with audited accounts within 3 months of the end of the tax year. A partnership is also required to file quarterly withholding tax statements, annual withholding statement and annual employer statement if it is a withholding agent or it has deducted income taxes on payments to employees or other payments.



Compliance with SECP: The LLP is required to file every year, Form-12 for Ultimate beneficial ownership for all the partners having more than 25% ownership.



Filing of changes: The LLP is required to file any changes in its partners, registered office, any amendments of LLP Deed, or other relevant information with the SECP.



Remember! Failure to comply with these requirements can result in penalties, fines, or your LLP may get deregistered. It is important for LLPs to consult with legal and financial advisors to ensure that they comply with all legal and regulatory requirements.

WINDING UP AND DISSOLUTION

Limited Liability Partnership (LLP) winding up and dissolution refers to the legal process of closing down and ending the existence of an LLP. This process involves settling the affairs of the partnership, distributing its assets, and terminating its legal existence.

Modes of winding up:

The winding up of a limited liability partnership may be either:

1

Voluntary: Partners may mutually agree to dissolve the LLP. And accordingly, must sign a dissolution deed.

2

By the court: It may be wound up by the Court if:

1. the LLP may decide so; or
2. the number of partners is reduced to one; or
3. the LLP unable to pay its debts; or
4. any other reason as mentioned in the LLP Act, 2017.

PROCESS OF WINDING UP AND DISSOLUTION

The process involves settling the affairs of the LLP, distributing its assets, and terminating its legal existence.

01

Winding Up: After the partners decide to dissolve the LLP, the winding-up process begins. It involves settling the partnership's affairs, including the settlement of liabilities, realization of assets, and distribution of remaining funds to partners.

02

Drafting Dissolution Deed: After settling all the liabilities and other obligations the partners decide to distribute the assets as agreed mutually or as provided in the LLP deed. Thereafter the dissolution deed is drafted and signed by all the partners.

03

Application for Dissolution: A copy of dissolution deed is submitted with the SECP along with application for deregistration. It is also mandatory to publish a public notice through newspaper having wide circulation in the province of registration.

04

Application for Deregistration: After deregistration with SECP, application is submitted with FBR for deregistration for income tax and for sales tax if applicable. A copy of dissolution deed is also submitted with FBR.



Imagine Sabir and Aslam starting a software development firm as a Limited Liability Partnership (LLP). In this setup, their liability is limited to the money they invested in the business. If the firm faces financial issues or legal trouble, Sabir and Aslam won't risk personal assets like their homes. The LLP structure provides a safeguard, separating personal and business responsibilities. It's akin to a financial safety net, allowing them to collaborate on projects, share profits, and pursue business goals without the fear of extensive personal financial exposure.

INTERACTIVE ACTIVITY: Participants work through a scenario of establishing an LLP and drafting an LLP agreement.

Let's work through a scenario of establishing an LLP and drafting an LLP agreement. Here are the steps involved:

Step 1: Determine Partners and Roles Identify the partners who will be involved in the LLP and determine their roles and responsibilities within the partnership. Consider their expertise, contributions, and commitment to the business.

Step 2: Create an Account with SECP: Go to the SECP website and access the Online Services Portal. If you don't already have an account, create one on the SECP Online Services Portal. Provide the required information, such as your name, contact details, and email address, to register for an account.

Step 3: Name Reservation Check the availability of the desired LLP name and reserve it with the SECP at <https://leap.secp.gov.pk/> and pay the challan. Ensure that the name complies with the legal requirements and reflects the nature of the business.

Step 4: Drafting the LLP Agreement: The LLP agreement is a crucial document that governs the rights, duties, and obligations of the partners, as well as the overall management and operation of the LLP. The agreement typically includes the following provisions:

- Particulars of Partners: Correctly mention the Name, Father/spouse name, CNIC number, and residential address of the partners.
- Name and Registered Office: Clearly state the name and registered office address of the LLP.
- Duration and Commencement: Specify the duration of the LLP and the date of its commencement.
- Capital Contributions: Outline the initial capital contributions made by each partner and any subsequent contributions required.
- Management and Decision-Making: Describe the decision-making process, voting rights, and roles of partners in managing the LLP's affairs. Consider appointing designated partners responsible for statutory compliance.
- Rights and Responsibilities: Specify the rights, responsibilities, and limitations of each partner, including their authority to bind the LLP.
- Admission and Withdrawal of Partners: Establish the procedures for admitting new partners and withdrawing existing partners, including the conditions and consequences of withdrawal.
- Any other terms: Any other terms and conditions as agreed between partners may also be mentioned.
- Dispute Resolution: Include provisions for resolving disputes among partners, such as mediation, arbitration, or litigation.
- Dissolution and Winding Up: Define the circumstances under which the LLP may be dissolved, the process for winding up its affairs, and the distribution of assets.

Step 5: Legal Review and Finalization: It is advisable to consult with a legal professional experienced in business law to review the drafted LLP agreement. Address any legal considerations, ensure compliance with relevant laws and regulations, and make any necessary revisions.

Step 6: Prepare the Application: Participants may download manual LLP application (LLP Form- III) is available on <https://leap.secp.gov.pk/> and fill in the form and should include all the necessary information of partners, name of LLP, Nature of business, registered office address, share percentages of each partner etc....

Step 7: Signing and Registration Once the LLP agreement is finalized: All partners should sign the agreement, LLP Form-III and consent form by partners. Attested copies of CNICs of partners and witnesses is required to be attached with the forms and the forms are now ready for submission with SECP.

RESOURCES: Specimen Limited Liability Agreement**LIMITED LIABILITY PARTNERSHIP AGREEMENT**

THIS AGREEMENT OF LIMITED LIABILITY PARTNERSHIP (hereinafter referred to as the “**Agreement**”) is made at _____ on this ____th day of _____, 20__ by and;

BETWEEN

Mr. Muhammad Aslam son of _____, Holding CNIC# 11111-1111111-1, resident of House _____ City, (hereinafter referred to as “**First Partner**”, which expression shall, wherever the context so permits, means and includes his successors, legal representatives, administrators and assigns) OF THE FIRST PART;

AND

Mr. Muhammad Usman son of _____, Holding CNIC# 11111-1111111-1, resident of House _____ City, (hereinafter referred to as “**Second Partner**”, which expression shall, wherever the context so permits, means and includes his successors, legal representatives, administrators and assigns) OF THE SECOND PART;

(Where the context so permits the First Partner and Second Partner are jointly referred to as the “**Partners/Parties**” and individually as “**Partner**”).

WHEREAS, all the terms and conditions of forming the Partnership business have already been settled among the Partners and these are required to be reduced into writing to keep the matter clear, free of doubts and ambiguity and for such uses and references as need may arise from time to time, hence this Agreement has been drawn up; and

WHEREAS, it is deemed necessary and desirable that a regular Agreement of Partnership be reduced in writing and executed on the terms and conditions mentioned hereunder.

NOW, THEREFORE, THIS PARTNERSHIP AGREEMENT WITNESSTH AS UNDER:

1. The name and style of the Partnership business will be “**ABC LLP**” (hereinafter referred to as the “**LLP**”).
2. The registered office of the LLP will be situated in the province of _____

3. The objects for which the LLP is established are all or any of the following:
- (i) The principal line business of the LLP shall be _____.
 - (ii) The LLP may engage in all the lawful businesses and shall be authorized to take all necessary steps and actions in connection therewith and ancillary thereto after obtaining NOC from the relevant authorities and SECP wherever applicable. The LLP shall not engage in any business as mentioned in below mentioned clause (iii) without approval of SECP
 - (iii) Notwithstanding anything contained in the foregoing sub-clauses of this clause nothing contained herein shall be construed as empowering the LLP to undertake or indulge, directly or indirectly in the business of a Banking Company, Non-banking Finance Company (Mutual Fund, Leasing, Investment Company, Investment Advisor, Real Estate Investment Trust management company, Housing Finance Company, Venture Capital Company, Discounting Services, Microfinance or Microcredit business), Insurance Business, *Modaraba* management company, Stock Brokerage business, forex, managing agency, business of providing the services of security guards or any other business restricted under any law for the time being in force or as may be specified by the Commission.
 - (iv) It is hereby undertaken that the LLP shall not:
 - (a) engage in any of the business mentioned in sub-clause (iii) above or any unlawful operation;
 - (b) launch multi-level marketing (MLM), Pyramid and Ponzi Schemes, or other related activities/businesses or any lottery business;
 - (c) engage in any of the permissible business unless the requisite approval, permission, consent or license is obtained from competent authority as may be required under any law for the time being in force.
4. The Partnership shall be entitled to commence business from the date of issuance of incorporation certificate from SECP.
5. Every person who is a Partner of this LLP at the time of incorporation shall also be considered as “Designated Partner”. The Partners agree that the Designated Partner shall be responsible for the doing of all acts, matters and things as are required to be done by the LLP in respect of compliance of the provisions of this act including filing of any document, return, statement and the like report as required under the provision of the Act and/or agreed herein in this Agreement. The Partners further agree that any Partner may become a designated Partner by and in accordance with an Agreement with the other Partner(s) and a Partner may cease to be a Designated Partner in accordance with an Agreement with other Partner(s)

6. The capital of the Partnership shall be as per the books of account and have to be contributed by the above said First, Second & Third Partners according to their respective shares as given below and shall belong to the said Partners in such shares and if any time hereafter any further capital is required for the purposes of the Partnership, unless otherwise agreed, the same will be contributed by the above said Partners in their respective shares. The Partners further agree that all the Partners of the LLP are entitled to share (as per the agreed percentage given below) in the capital, profit and loss of the LLP.

7. The details and share percentage of the first Partners/Founding Partners of this LLP are as follows:

Name and surname (present & former) in full (in Block Letters)	NIC No. (in case of foreigner, Passport No)	Father's/ Husband's Name in full	Nationality (ies) with any former Nationality	Occupation	Usual residential address in full or the registered/ principal office address for a Partner	Percentage of each Partner in this LLP (in figures and words)
[Full Name]	1111111111111	[Father's Name]	Pakistani	[insert]	[insert address]	50% (Fifty Percent)
[Full Name]	1111111111111	[Father's Name]	Pakistani	[insert]	[insert address]	50% (Fifty Percent)
		Total percentage of Partners in LLP				100% (Hundred Percent)

Provided that the Partners may agree to change and vary this ratio from time to time with their mutual consent.

8. The liability of Partners shall be limited.

9. The Partners further agree that each/every Partner may take part in the management of LLP.

10. Any matter or issue relating to the LLP shall be decided by resolution passed by a majority of in the number of Partners, and for this purpose, each Partner shall have one vote. However, no change may be made in the nature of business of the LLP without resolution passed by majority of less than three-fourth.
11. The banker or bankers of the Partnership business shall be any scheduled bank or banks as may be decided from time to time by the Partners and shall be operated by the Partners individually or jointly. The Partners with written mutual consent may delegate this power to operate the Bank Account to any other person/employee with their mutual consent.
12. All moneys or negotiable instruments received from and on behalf and/or on account of the Partnership business shall be paid/deposited into such banking account or accounts in the name of the Partnership.
13. The Partnership business, with the prior written consent of all Partners, may from time to time borrow, take loan, or raise any sum of money from bank or banks or from any other source or sources for the purposes of business by offering such securities as may be agreed by and between the members of the Partnership. The Partners further agree that a Partner may lend money to and transact other business with the LLP as may be prescribed and shall have the same rights and obligations with respect to the loan or other transactions as a person who is not a partner.
14. The LLP shall cause to keep proper books of account in accordance with the provisions of section 20 of the Act and shall, as required by sections 20(2) of the Act, cause to be prepared and to be laid before the Designated Partners such profit and loss accounts or income and expenditure accounts and balance sheets duly audited and reports as are referred to in those sections. They shall in all respects comply with the provisions of sections 20.
15. An auditor or auditors of a LLP shall be appointed after seeking approval of partners through resolution passed by a majority of partners, who shall be a Chartered Accountant. The first auditor or auditors of a LLP shall be appointed by the partners within sixty days of the date of incorporation of the LLP provided that the LLP shall obtain a consent in writing from the auditor before his appointment in accordance with the LLP regulations 2018 and their duties regulated in accordance with the provisions of sections 20 of the Act.
16. The accounting year of the Partnership shall be the year ending on the last day of 30th June every year. The Final Accounts as will be drawn up at the close of the year within four months from the closure of the financial year and shall be signed by the Designated Partner(s) hereto as a token of acceptance.
17. That the Partners of the LLP may from time to time appoint, suspend or terminate any manager(s) or employees(s) and determine their powers, discretion and duties & responsibilities and fix their salaries or emoluments and to require security in such instances as they think fit, for the purposes of operation of business.

18. The Partners shall always act in a manner which is in accordance with the law and shall at all times have the best interests of the business and the other Partner in mind and be fair and transparent in all their dealings and activities. The Partners further agree that if a Partner, without the consent of the LLP, carries on any business of the same nature as and competing with the LLP, he/she/they must be accounted for and pay over to the LLP all profits made by him in that business.
19. All the Partners have joined the LLP in their own right and interest. No new partner may be introduced to the Partnership without the unanimous consent of the existing Partner(s). Unless or otherwise agreed in writing, no partner shall assign or pledge, endorse, accept or otherwise encroach upon the assets of the Partnership. No partner shall sell, transfer, pledge, mortgage or otherwise encumber his share for any reason whatsoever to any outsider without the prior approval in writing of the remaining Partners.
20. In the event that a dispute, claim or controversy arises between the LLP and its management or between the Partners *inter se*, all steps shall be taken to settle the dispute and resolve the issue through mediation by an accredited mediator before taking recourse to formal dispute resolution such as arbitration or litigation.
21. The Partners agree that any notice sent the LLP to its registered address, _____, may be considered as served and delivered to the LLP.
22. The terms and conditions of the Agreement of Partnership may be varied, altered or amended with the mutual consent of all the Parties of the Partnership and in accordance with the applicable laws and same will be notified to the SECP within the stipulated time as required under the law.
23. The Partners agree that the LLP shall indemnify each Partner in respect of payments made and personal liabilities incurred by him/her in the ordinary and proper conduct of business of the LLP and/or anything necessarily done for the preservation of the business and/or property of the LLP.
24. The LLP shall follow, in case of its winding up, the relevant provisions of the Act.
25. This Agreement hereto constitutes the entire agreement and understanding between the Parties concerning the subject matter hereof and shall supersede and replace all prior discussions, agreements and representations, whether oral or written and whether or not executed by the Parties, this Agreement, and the terms of this Agreement shall prevail.
26. In the event any one or more of the provisions of this Agreement is held to be void, unenforceable or illegal under the applicable law, such nullity or unenforceability or illegality shall not affect any other provision of this Agreement.

27. The Partners agree that they have read this Agreement in its entirety prior to executing it, and are not relying on any representation or promise except for those set forth in this Agreement in voluntarily deciding to execute the same.

28. All the provisions of Limited Liability Partnership Act, 2017 with its Schedules and along with all applicable Rules, Regulations and laws, which are not contained hereinabove, shall apply to this Partnership in the usual manner.

IN WITNESS WHEREOF, the Parties have set and subscribed their respective hands and seal below on the day, month and year hereinabove mentioned.

(FIRST PARTNER)

(SECOND PARTNER)

WITNESSES:

1. _____

Name:

CNIC#:

Address:

2. _____

Name:

CNIC#:

Address:

PRIVATE LIMITED COMPANY

IN THIS MODULE:

AT A GLANCE OVERVIEW:

1. Brief description of a private limited company
2. Its General Features, advantages and disadvantages
3. Roles and responsibilities of directors & shareholders.
4. Its formation, compliance, and dissolution.

- ✓ Expert Tips
- ✓ Good To Know Notes
- ✓ Illustrations
- ✓ Important Notes

AT A GLANCE

A Private Limited Company, a prevalent business structure in Pakistan, is characterized by limited liability and a restricted number of shareholders, usually ranging from 2 to 50 (One member in case of single member company). This structure provides a separate legal identity, shielding personal assets from business liabilities.

Private Limited Companies offer advantages like limited liability, perpetual succession, and ease of transferability of shares. However, disadvantages include increased compliance requirements and restrictions on share transfer.

The incorporation process involves name reservation, submission of required documents to the Securities and Exchange Commission of Pakistan (SECP), and obtaining a certificate of incorporation. Legal requirements encompass compliance with the Companies Act, 2017 and applicable rules.

The Memorandum of Association outlines the company's objectives, and the Articles of Association define internal rules. Key contents include business objectives, share capital, and rules for shareholder meetings.

This engaging module covers essential aspects of private limited companies, including their characteristics, advantages, incorporation process, legal requirements, and the roles of shareholders and directors. It delves into taxation considerations, post-incorporation compliances, and offers interactive activities and visual aids for an immersive learning experience. Participants explore real case studies, work through incorporation scenarios, and access practical resources for a comprehensive understanding of private limited company registration in Pakistan.

INTRODUCTION AND DEFINITION OF A LIMITED LIABILITY COMPANY

1.

Introduction

The concept of limited liability companies emerged during the Industrial Revolution in the 19th century as a means to attract capital for large-scale enterprises while mitigating the risk for investors. The idea gained popularity and spread across the globe. The current legislation governing companies is the Companies Act, 2017, which provides a modern legal framework for the establishment and operation of limited companies in Pakistan.

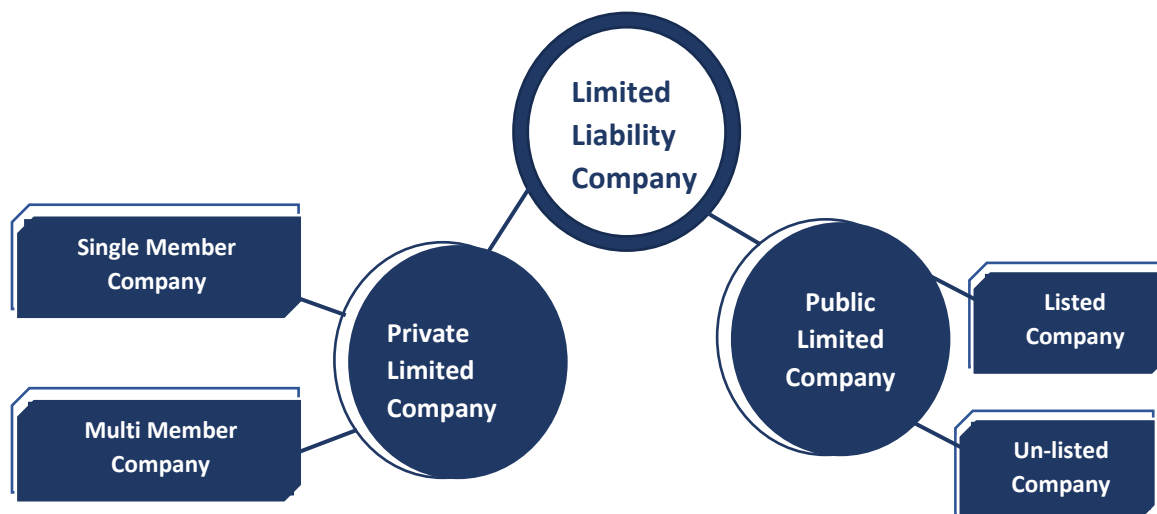
What is a Limited Liability Company?

2.

A limited company is a legal entity formed under the Companies Act, offering limited liability protection to its shareholders and directors. It is a separate legal entity from its owners, enabling it to enter into contracts, hold assets, and conduct business activities

TYPES OF LIMITED LIABILITY COMPANY:

In Pakistan, limited companies can be classified into the following types:



Each type of limited company has its own specific features, advantages, and legal obligations, catering to different business needs and objectives.

In this module, we will discuss private limited company in detail. We will discuss about Public Limited Company in the next module.

DEFINITION OF A PRIVATE LIMITED LIABILITY COMPANY

1.

Introduction

A private limited company in Pakistan is a widely used business structure that offers limited liability protection to its shareholders. It is formed under the Companies Act, 2017 and is characterized by a restricted number of shareholders (up to 50) and restrictions on the transfer of shares. Private limited companies are known for their flexibility, ease of management, and tax advantages. They provide a suitable option for small to medium-sized enterprises (SMEs) and family-owned businesses, offering a balance between limited liability protection and operational control.

What is a Private Limited Company?

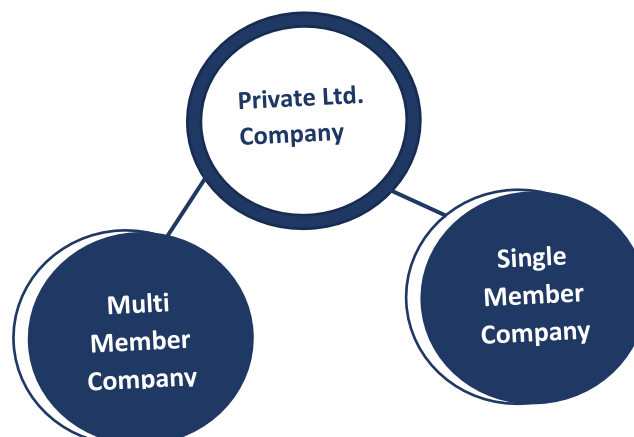
2.

A private limited company means a company which:

- restricts the right to transfer its shares;
- limits the number of its members to fifty; and
- prohibits any invitation to the public to subscribe for its shares.

TYPES OF PRIVATE LIMITED COMPANY

There are two types of private limited company based on number of members.



A private limited company having only one member/ shareholder is called a Single member company and is denoted as (SMC-Private) Limited. It shares all the features of a private limited company except the number of directors/ shareholders. All the registration requirements are same except for name extension i.e., (SMC-Private) Limited and that it can have one member only. Furthermore, a Single member company has lesser corporate compliance requirements.

We delve into the details about the multi member private limited company which is normally called private limited company.

GENERAL FEATURES OF A PRIVATE LIMITED COMPANY

The prominent characteristics of a private limited company in Pakistan are as follows:

Limited Liability

1

The shareholders of a private limited company have limited liability, which means their personal assets are protected in case of company debts or obligations. Their liability is limited only to the amount they have invested in the company.

No. of Shareholders

2

A private limited company in Pakistan requires a minimum of two shareholders to form, but can have a maximum of fifty shareholders. This allows for shared ownership and investment opportunities. A single member company has only one shareholder.

Separate Legal Entity

3

A private limited company is considered a separate legal entity from its shareholders. It can enter into contracts, own assets, and sue or be sued in its own name. This provides the company with perpetual existence, regardless of changes in its ownership.

Capital Requirement

4

A private limited company in Pakistan is required to have a minimum authorized share capital, which is specified by law. However, there is no maximum paid-up capital requirement.

Board of Directors

5

A private limited company must have a board of directors consisting of at least two individuals (In case of SMC, only one). The directors are responsible for managing the affairs of the company and making important decisions on behalf of the shareholders.

ADVANTAGES AND DISADVANTAGES OF A PRIVATE LIMITED COMPANY

Advantages:

Private limited companies offer several advantages, including:

1

Liability Protection

Shareholders of a private limited company have limited liability, meaning their personal assets are protected in the event of company debts or liabilities. Their liability is limited to the amount they have invested in the company, providing a safeguard for personal finances.

2

Separate legal entity

A private limited company is a separate legal entity from its shareholders. This means the company has its own legal rights and obligations, allowing it to enter into contracts, own assets, and engage in legal proceedings in its own name. The company's existence is not affected by changes in ownership or management.

3

Perpetual Existence

Private limited companies enjoy perpetual existence, which means they can continue to operate irrespective of changes in shareholders or directors. This provides stability and continuity to the business, making it easier to attract investors and plan for long-term growth.

4

Ease of Ownership

It provides a structured framework for the transfer of ownership. Shareholders can transfer their shares to others, subject to any pre-existing agreements or restrictions. This allows for smooth transitions in ownership without disrupting the business operations.

5

Credibility

The structure of a private limited company lends credibility and enhances investor confidence. It signals that the company is compliant with legal requirements, maintains proper accounting records, and undergoes annual audits. This can make it easier to attract funding from investors and financial institutions.

6

Management Structure

Private limited companies offer flexibility in their management structure. They can appoint directors and managers to oversee day-to-day operations, allowing the shareholders to focus on strategic decision-making. This separation of management and ownership can facilitate efficient business operations.

It's important to note that while private limited companies offer numerous advantages, the specific benefits can vary based on individual circumstances. Consulting with legal, financial, and tax professionals is recommended to fully understand the advantages and implications of forming a private limited company.

Disadvantages:

While private limited companies offer many advantages, there are also some potential disadvantages to consider:



Personal liability for negligence/ fraud: While directors/ shareholders are not personally liable for the debts and obligations of the business beyond their investment in the company, they can still be held personally liable for their own negligence or wrongful acts.



Complexity and Legal Compliance: Private limited companies are subject to various legal and regulatory requirements. Compliance with company law, filing annual financial statements, conducting audits, and adhering to corporate governance standards can be complex and time-consuming. Failure to comply with these obligations can result in penalties or legal consequences.



Cost of Formation and Maintenance: Establishing and maintaining a private limited company can involve significant costs. These expenses include registration fees, legal and professional fees, ongoing compliance costs, accounting fees, and audit fees. These costs can be burdensome for small businesses or startups with limited resources.



Lack of Privacy for Directors and Shareholders: While private limited companies offer confidentiality for certain information, the details of directors and shareholders are generally available to the public through company registers. This lack of privacy may be a concern for individuals who prefer to keep their personal details private.



Restrictions on Capital and Ownership: Private limited companies have restrictions on the transfer of shares. Share transfers often require the consent of existing shareholders or adherence to pre-emptive rights. This limitation can make it more challenging to bring in new investors or exit the company by selling shares.



Limited Access to Public Funding: Private limited companies cannot raise capital through public offerings, which limits their ability to access large-scale public funding. They typically rely on private investments or debt financing, which may be more restrictive in terms of availability and terms.



Lack of Flexibility in Decision-Making: Private limited companies must adhere to the provisions laid out in their Articles of Association. This can limit the flexibility of decision-making and may require shareholder approval for certain major decisions, potentially causing delays or difficulties in executing strategic plans.



Financial Disclosure Requirements: Private limited companies are required to prepare and file annual financial statements (for companies having paid-up capital of Rs. 10 million or more), which are publicly available. This level of financial transparency may disclose sensitive information to competitors or other parties who may misuse the information.



Shareholder Disputes and Conflict: Disagreements and conflicts among shareholders can arise in private limited companies, especially when there is a lack of clarity in share ownership, decision-making, or profit distribution. These disputes can disrupt the functioning of the company and may require legal intervention to resolve.



Exit Strategy Challenges: Exiting or selling shares in a private limited company can be more challenging compared to other business structures. Limited options for share transfer, the need for shareholder consent, and potential valuation complexities can make it harder for shareholders to exit their investment or sell their shares.



It's essential to weigh these disadvantages against the specific needs and goals of your business. Consulting with legal, financial, and tax professionals can provide valuable insights into the implications and challenges associated with operating a private limited company.

DOCUMENTATION AND LEGAL REQUIREMENTS

Basic documents are required to form a private limited company such as CNIC of members and directors, CNIC of witnesses, phone number and email of members/ directors.

Any person having age of majority (18 years) can be a member or shareholder of a company. At least two members/ directors are required to form a private limited company. A person shall not be eligible for appointment as a director of a company if he is a minor.

PROCESS FOR INCORPORATION

The process for incorporating a private limited company with the Securities and Exchange Commission of Pakistan (SECP) involves the following steps:

01

Sign up with SECP: Every member/ director who are subscribing to the memorandum of association will have to sign-up with SECP portal by providing basic details like information mentioned on CNIC/ NICOP, phone number registered under his/ her CNIC and email.

02

Name Reservation: Choose a unique name for your company and submit a name reservation application to the SECP. The name should comply with the guidelines provided by the SECP, including avoiding any prohibited or similar names. Once approved, the name reservation is valid for 60 days.

03

Preparation of Documents: Prepare the necessary documents for company incorporation, including the Memorandum of Association (MOA) and Articles of Association (AOA). The MOA defines the company's scope of activities, while the AOA outlines the internal regulations and rules governing the company's operations. Specimen MOA and AOA can be found from SECP website.

04

Form Submission: Complete the incorporation forms required by the SECP. These forms can be filled online. In order to fill in the online form, sign in with SECP portal from any director or shareholder and fill in all the necessary details. Ensure all the required details are accurately provided according to relevant documents like CNIC/ NICOP/ Passport etc.

05

Digital Signatures: After completing the form and attachments like memorandum of association, articles of association, CNIC of shareholders, every member will sign into their SECP account and open the incorporation form and sign it electronically.

06

Filing with the SECP: Once all the directors/ members (subscribers) sign the draft incorporation application, the application is ready for submission.

07

Payment of Fee: Once the application is submitted. Download the challan in case of offline payment or in case of online Payment just copy the PSID number and pay it using online bank application, or easy paisa application etc. The fee varies based on the authorized share capital of the company. The fee can either be paid online via bank application, easy paisa etc. as mentioned above.

08

Verification and Approval: The SECP will review the submitted documents and may seek clarification or additional information if required. Once the documents are verified and approved, the SECP will issue a Certificate of Incorporation which shall be sent to your email address.



Waseem and Naseem and their other six friends are establishing a technology company named Tech Solutions as a Private Limited Company (PLC). They divide ownership into shares, with Waseem holding 40% and Naseem 30% and the others hold 5% each. As shareholders, they have a stake in the company, and their liability is limited to their share investments, safeguarding their personal assets in case of financial issues. Moreover, they are also mindful of the fact that the operational affairs of the company be in the hands of the elected few persons and keep others away to mingle with daily affairs unnecessarily.

In this PLC, Tech Solutions becomes a distinct legal entity, enabling it to engage in contracts, own property, and operate autonomously from Waseem and Naseem. They can attract additional investors by selling shares and appoint a board of directors to oversee the company's daily operations and thus other investors do not have the right to make management decisions. This way the other investors cannot interfere with the operational affairs of the company unnecessarily.

This corporate structure not only provides limited liability for the owners but also allows for efficient management and potential business expansion, making Tech Solutions an appealing venture for both Waseem and Naseem.

MEMORANDUM OF ASSOCIATION AND ITS CONTENTS

The Memorandum of Association (MOA) of a private limited company is a legal document that defines the company's objectives, scope of activities, and the relationship between the company and its shareholders. It is one of the key documents required for the incorporation of a company.

The MOA typically includes the following essential information:



Name Clause: It states the name of the company, which should be unique and approved by the SECP.



Registered address Clause: Only the name of province will be mentioned in this clause.

3

Object Clause: This clause outlines the main objectives and activities that the company is authorized to undertake. It defines the scope of the company's business operations and sets the boundaries within which the company can operate.

4

Liability Clause: The liability clause states that the liability of the company's members or shareholders is limited to the amount they have invested in the company. This clause provides limited liability protection to the shareholders, separating their personal assets from the company's liabilities.

5

Capital Clause: It specifies the authorized share capital of the company, which represents the maximum value of shares that the company can issue to its shareholders. The clause may also include details about the division of the share capital into different classes of shares, if applicable.

6

Association Clause: This clause states that the subscribers (initial shareholders) of the MOA are willing to form the company and become its members/shareholders. The subscribers' names, addresses, and signatures are usually included in this clause.



Good to Know

The Memorandum of Association is a public document that is filed with the relevant regulatory authority during the incorporation process. It sets out the foundational principles and purpose of the company, guiding its operations and acting as a reference point for shareholders, directors, and other stakeholders.

ARTICLES OF ASSOCIATION AND THEIR CONTENTS

The Articles of Association (AOA) of a private limited company is a legal document that defines the internal regulations, rules, and procedures governing the operations, management, and administration of the company. It outlines the rights, responsibilities, and powers of the company's shareholders, directors, and officers.

The AOA typically includes the following key provisions:

1

Share Capital and Shares: The AOA specifies the details of the company's share capital, such as the authorized share capital, the number of shares and their classes, and the rights and restrictions associated with each class of shares. It may also cover provisions related to the transfer of shares, share certificates, and share transfer procedures.

2

Shareholder Meetings and Voting: The AOA outlines the procedures for convening and conducting shareholder meetings, including annual general meetings and extraordinary general meetings. It covers matters related to voting rights, proxies, quorum requirements, and the passing of resolutions by shareholders.

3

Directors and Board of Directors: The AOA defines the role, appointment, powers, and responsibilities of the directors. It outlines the procedures for appointing and removing directors, their remuneration, the conduct of board meetings, and decision-making processes.

4

Dividends and Distribution of Profits: The AOA may include provisions related to the declaration and payment of dividends to shareholders. It outlines the procedures for determining dividend amounts, dividend payment dates, and the treatment of retained earnings.

5

Directors and Board of Directors: The AOA defines the role, appointment, powers, and responsibilities of the directors. It outlines the procedures for appointing and removing directors, their remuneration, the conduct of board meetings, and decision-making processes.

6

Borrowing Powers and Financing: The AOA may specify the borrowing powers of the company and any limits or restrictions on borrowing. It may cover provisions related to the company's authority to raise loans, issue debentures, or secure assets as collateral.

7

Audit and Financial Reporting: The AOA may include provisions related to the appointment of auditors, their duties, and the preparation and presentation of financial statements. It may outline the requirements for maintaining proper accounting records and the timeline for filing annual financial statements with the relevant regulatory authorities.

8

Winding-up and Liquidation: The AOA may include provisions related to the winding-up and liquidation of the company, including the appointment of liquidators, distribution of assets, and the settlement of liabilities.

**Good to Know**

The AOA is a legally binding document that governs the internal affairs of the company and provides a framework for decision-making and corporate governance. It works in conjunction with the company's Memorandum of Association (MOA) and forms the basis for the company's relationship with its shareholders, directors, and officers.



Remember! It's important to note that the specific contents of the AOA can vary based on the specific requirements of the company. It is advisable to seek legal advice or refer to the regulations and guidelines provided by the SECP for precise details regarding the AOA of a private limited company.



Good to Know

You can find specimen memorandum/ articles of association from SECP website or in the companies Act, 2017 at <https://www.secp.gov.pk/company-formation/memorandum-and-articles-of-association/memorandum-of-association/>

SHAREHOLDERS, DIRECTORS AND THEIR ROLES AND RESPONSIBILITIES

In a private limited company in Pakistan, shareholders and directors play distinct roles and have specific responsibilities. Here's an overview of their roles and responsibilities:

Shareholders:

1

Ownership and Investment: Shareholders are the owners of the company. They hold shares that represent their ownership interest in the company. Shareholders invest capital in the company by purchasing shares and contribute to the company's financing.

2

Decision-Making: Shareholders exercise their decision-making power through voting rights. They participate in general meetings, such as annual general meetings, and have the right to vote on important matters affecting the company, including the appointment of directors, changes to the company's structure, and approval of significant transactions.

3

Profit Sharing: Shareholders are entitled to a share in the profits of the company. The distribution of profits is typically in the form of dividends, which are allocated based on the number of shares held by each shareholder.

4

Limited Liability: Shareholders of a private limited company enjoy limited liability protection, which means their personal assets are protected in case of company debts or liabilities. Their liability is limited to the amount they have invested in the company.

Directors:

1

Governance and Management: Directors are appointed by the shareholders to manage the affairs of the company. They have the responsibility of overseeing the day-to-day operations, making strategic decisions, and ensuring compliance with legal and regulatory requirements.

2

Decision-Making: Directors have decision-making authority and are responsible for formulating and implementing the company's policies, strategies, and operational plans. They may be involved in important decisions, such as approving financial transactions, signing contracts, and hiring key personnel.

3

Fiduciary Duties: Directors have a fiduciary duty towards the company and its shareholders. They are expected to act in the best interests of the company, exercise due care and skill, and avoid conflicts of interest.

4

Corporate Governance and Compliance: Directors are responsible for ensuring compliance with laws, regulations, and corporate governance standards. They oversee the preparation and submission of financial statements, maintain proper accounting records, and ensure compliance with tax obligations.

5

Reporting and Communication: Directors are responsible for providing regular updates and reports to the shareholders, including financial performance, business progress, and significant developments. They communicate with shareholders and other stakeholders, representing the company's interests.

6

Appointment and Oversight: Directors may be involved in the appointment and supervision of senior executives and key management personnel. They may form committees to address specific matters, such as audit committees or remuneration committees.



It's important to note that the roles and responsibilities of shareholders and directors can be further defined and specified in the company's Articles of Association (AOA) and other internal policies and agreements. Additionally, it is essential for both shareholders and directors to adhere to the provisions of company law and regulatory requirements in Pakistan.

 Expert Tip

The companies Act, 2017 lays down the activities which the board of directors can decide without having to seek approval from the shareholders of the company through an annual general meeting or extra ordinary general meeting. Such decisions will be taken by the board of directors in accordance with the articles of association. Also, such powers can be curtailed by the members/ shareholders by amending the articles of association.

MEETINGS:

Company meetings, including shareholders meetings, statutory meetings, and Board of Directors (BOD) meetings, serve as essential forums for decision-making, transparency, and accountability within an organization. These gatherings provide stakeholders with opportunities to discuss key matters, address concerns, and make critical decisions that impact the company's direction, governance, and performance. By fostering communication and collaboration among shareholders, management, and board members, these meetings play a pivotal role in ensuring effective corporate governance and driving the success and sustainability of the business.

1

Statutory meeting: Statutory meeting is not applicable to a private limited company. Every public company is required to hold such meeting.

2

Annual General Meeting: Every company except single member company, is required to hold, an annual general meeting within sixteen months from the date of its incorporation and thereafter once in every calendar year within a period of one hundred and twenty days following the close of its financial year.

This meeting is held to discuss company accounts, election of directors, appointment of auditors, declaration of dividend and other businesses as per agenda of the meeting. At least 21 days' notice is required before the date fixed for the meeting.

3

Extraordinary General Meeting: All meetings of shareholders of a company, other than the annual general meeting and statutory meeting are called as extraordinary general meeting. At least 21 days' notice required but if all the members entitled to attend and vote at any extraordinary general meeting so agree, a meeting may be held at a shorter notice.

4

Meeting of Board of Directors: Board of Directors meetings are crucial gatherings where the leadership team discusses strategic decisions, monitors company performance, and ensures corporate governance. These meetings play a vital role in setting the company's direction, providing oversight, and safeguarding shareholder interests. The CEO is bound to implement the decision of the board.

5

Special Resolution: means a resolution which has been passed by a majority of not less than three-fourths of such members of the company entitled to vote as are present in person or by proxy or vote through postal ballot at a general meeting of which not less than twenty-one days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Provided that if all the members entitled to attend and vote at any such meeting so agree, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one days' notice has been given.

TAXATION

A private limited company in Pakistan is subject to various tax obligations. The taxation of a private limited company involves several aspects, including income tax, sales tax, and other applicable taxes.

A private limited company is subject to corporate income tax on their taxable income. The income tax rates vary depending on the company's status, such as being a resident or non-resident company, and the type of income earned. Rate of tax for normal company is 29% and that of a small company is 20%. A private limited company is also subject to minimum income tax.

A private limited company is a withholding agent and thus is required to withhold and deduct income tax at source on various payments, such as salaries, goods purchases, dividends, interest, royalties, and services.



A private limited company may be subject to GST depending upon the nature and volume of business. GST is applicable to Tier -1 retailers, dealers, manufacturers (Other than cottage Industry), distributors and wholesalers. The standard rate of GST is 18%, but depending upon the nature of goods or any other criteria the rates may be lesser or zero rated or exempt.

In case of provision and rendition of services, a private limited company may be subject to sales tax on services. Sales tax rates applicable shall depend upon nature of services and any other criteria as may be specified under relevant provincial legislation. Sales tax on services is a provincial subject and every province is administering and collecting it including Islamabad, capital territory.



The standard SST rate in Punjab province is 16%, 13% in Sindh 15% in Baluchistan, 15% in Khaybar Pakhtunkhwa and 16% in Islamabad Capital Territory. The standard rate applies to most services. However, some services are subject to reduced SST rates, while others may be exempt from SST.



Remember! A private limited company is regarded as withholding agent for sales tax on goods irrespective of the fact that it is registered with FBR for sales tax or not.

RECORD KEEPING CONSIDERATIONS FOR PRIVATE LIMITED COMPANY

A private limited company is required to maintain proper accounting records and adhere to record-keeping considerations to ensure compliance with legal and regulatory requirements. Here are some key record-keeping considerations for private limited companies:



Financial Statements: Private limited companies are required to prepare annual financial statements, including the balance sheet, profit and loss account, and cash flow statement. These financial statements should provide an accurate and true reflection of the company's financial position and performance.



General Ledger: It may maintain a general ledger that records all financial transactions of the company, including sales, purchases, expenses, and other financial activities. The ledger should provide a detailed and organized record of each transaction, along with supporting documents and evidence.



Bank and Cash Records: Keep detailed records of all bank transactions, including bank statements, deposit slips, checks, and other related documents. Maintain a cash book or register to record all cash transactions, including receipts and payments.



Invoices and Sales Records: Keep detailed records of all bank transactions, Invoices and Sales Records: Maintain a record of all invoices issued and received. This includes sales invoices, purchase invoices, credit notes, and debit notes. The invoices should contain complete and accurate information about the transactions, including the parties involved, quantities, prices, and applicable taxes.



Inventory Records: If the company deals with inventory, maintain proper inventory records, including details of stock receipts, issuances, and physical counts. This helps in tracking inventory levels, valuing inventory, and preventing discrepancies.



Tax Records: Keep records related to tax compliance, including tax returns, tax payment receipts, withholding tax certificates, and other tax-related documents. Ensure proper documentation and record-keeping for deductions, exemptions, and any other tax-related matters.



Minutes of Meetings: Keep minutes of all shareholder meetings, board meetings, and committee meetings (if has any committee). The minutes should accurately reflect the discussions, decisions, and resolutions made during the meetings.



Remember! It's important to maintain records in a safe and organized manner, ensuring that they are accessible for review, audit, and reference purposes. Consider implementing a proper record-keeping system and storing records securely, whether in physical or digital format. Regularly review and update records as required to ensure accuracy and completeness.

POST INCORPORATION COMPLIANCE

After the incorporation of a private limited company in Pakistan, there are several post-incorporation requirements that the company needs to fulfill. These requirements may vary based on the specific circumstances and industry of the company, but here are some common post-incorporation requirements for private limited companies:

1

Business Bank Account: Open a business bank account in the name of the company. This account will be used for financial transactions, receiving payments, and making payments on behalf of the company.

2

Tax Registration: Register for income tax and obtain National Tax Number (NTN). Currently, SECP shares data with FBR and NTN is generated automatically. A company may also be required to register for sales tax if engaged in taxable goods or services.

3

Business Bank Account: Open a business bank account in the name of the company. This account will be used for financial transactions, receiving payments, and making payments on behalf of the company.

4

Tax Compliance: Ensure timely and accurate compliance with tax obligations, such as filing periodic tax returns (income tax, sales tax, etc.) and paying applicable taxes within the specified due dates.

5

Accounting and Financial Reporting: Establish an accounting system and maintain proper accounting records. Prepare financial statements, including the balance sheet, profit and loss statement, and cash flow statement, on an annual basis. Comply with the accounting and financial reporting requirements specified by relevant laws and regulations.

6

Annual General Meeting (AGM): Hold an Annual General Meeting of shareholders within the prescribed timeframe, usually within six months of the end of the financial year. During the AGM, present and approve financial statements, appoint auditors, and discuss other important matters related to the company's affairs.

7

Annual Return and Other Forms: Prepare and file an annual return with the Securities and Exchange Commission of Pakistan (SECP) within the specified timeframe. The annual return provides updated information about the company's directors, shareholders, registered office address, and other relevant details. A company also has to file form 29 for any change in Directors, CEO or other company Officers. A single member company is not required to file form A.

8

Auditing: Arrange for the auditing of the company's financial statements by a qualified auditor. The audit report should be prepared in accordance with the auditing standards and submitted to the SECP.

9

Record Keeping: Maintain proper records of company documents, such as the Memorandum of Association (MOA), Articles of Association (AOA), share registers, minutes of meetings, contracts, and other important records. Ensure these records are kept in a secure and organized manner.

 Expert Tip

The financial statements of the company are audited by the external auditor of the company appointed by the shareholders in an annual general meeting or by the directors in case of first auditors. An external auditor is not required to be appointed for a company having paid-up capital not more than one Million rupees.

PROCESS FOR WINDING UP

The process of winding up, or liquidating, a private company involves the orderly dissolution of the company's affairs and the distribution of its assets among its creditors and shareholders. In

Pakistan, the winding-up process can be initiated voluntarily or through a court order. Here is an overview of the process of winding up a private company:

Voluntary Winding-Up

A company can be dissolved through Voluntary winding up process in two ways:

a Normal winding up process

01 Directors' Meeting: The directors of the company convene a meeting and pass a resolution to propose the voluntary winding up of the company. This resolution needs to be passed by a majority of the directors and should be supported by an affidavit stating that the company is solvent.

02 Shareholders' Meeting: A general meeting of the shareholders is called, and a special resolution to wind up the company is passed by the shareholders. This special resolution requires the approval of at least three-fourths of the voting shareholders.

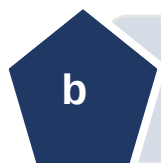
03 Appointment of Liquidator: The shareholders appoint a liquidator, who can be from the from the directors or shareholders or a qualified individual. The liquidator assumes the responsibility of overseeing the winding-up process and distributing the company's assets.

04 Notice to Registrar: Within 14 days of passing the special resolution, the company must file a notice of the resolution to wind up with the Registrar of Companies.

05 Notice to Creditors: The liquidator sends notices to the company's creditors (if any), informing them of the winding-up proceedings and providing them with a specified period to submit their claims.

06 Asset Realization and Distribution: The liquidator takes control of the company's assets, realizes their value through sales or other means, settles the company's liabilities, and distributes the remaining assets among the shareholders in accordance with their rights and priorities.

07 Final Filings: Once the winding-up process is complete, the liquidator prepares a final account and submits it to the Registrar. The Registrar issues a notice of dissolution, and the company is officially dissolved and struck off from the register.



Easy Exit Regulations

The process to dissolve a company through easy exit regulations is as follows:

- 01 **Directors' Meeting:** The directors of the company convene a meeting and pass a resolution to propose the voluntary winding up of the company. This resolution needs to be passed by a majority of the directors and should be supported by an affidavit stating that the company is solvent.
- 02 **Shareholders' Meeting:** A general meeting of the shareholders is called, and a special resolution to wind up the company is passed by the shareholders. This special resolution requires the approval of at least three-fourths of the voting shareholders. The shareholder may appoint a director and authorize him to execute the process of winding up and dissolution.
- 02 **Liquidation Process:** The authorized director proceeds to realizing the company's assets, settling liabilities, and distributing assets to the creditors and shareholders in accordance with legal priorities and claims.
- 03 **Final Filings:** Once the winding-up process is complete, the directors prepare a final account. The authorized director will prepare certain documentation and submit it with the registrar. The Registrar issues a notice of dissolution, and the company is officially dissolved and struck off from the register.

Expert Tip

It is advisable to dissolve your company through easy exit regulations which involves lesser documentation and requirements. For easy exit you would need a members' resolution, certificate from a CA or CMA on a prescribed form, an undertaking as prescribed by SECP and apply it online through SECP portal.

Court-Ordered Winding-Up:

A company may be wound up by the Court— if



if the company has, by special resolution, resolved that the company be wound up by the Court;

2

if default is made in holding any two consecutive annual general meetings; or

3

if the number of members is reduced, below two in case of private limited company; or

4

if the company is unable to pay its debts; or

4

if the company is—

- a. Indulged in unlawful or fraudulent activities; or
- b. conducting its business in a manner oppressive to the minority; or
- c. run and managed by persons who fail to maintain proper and true accounts; or
- d. managed by persons who refuse to act according to the requirements of the memorandum or articles or the provisions of this Act or failed to carry out the directions or decisions of the Commission

Process of Court-Ordered Winding-Up:

The process of winding up by court is as follows:

01

Petition to the Court: The winding-up process can also be initiated through a court order. This typically occurs when there is a dispute among the company's stakeholders or when the company is unable to pay its debts. A petition for winding up is filed with the relevant court, providing sufficient grounds for the winding-up order.

02

Court Proceedings: The court reviews the petition, holds hearings, and examines the evidence provided. If the court is satisfied that the company should be wound up, it issues a winding-up order and appoints an official liquidator or a provisional liquidator to oversee the process.

03

Liquidation Process: The appointed liquidator follows the procedures outlined in the Companies Act and the court's directions. This includes realizing the company's assets, settling liabilities, and distributing assets to the creditors and shareholders in accordance with legal priorities and claims.

04

Final Filings: Once the winding-up process is complete, the liquidator prepares a final account and submits it to the court. The court issues a notice of dissolution, and the company is officially dissolved and struck off from the register.



Remember! It's important to note that the winding-up process can be complex and involve legal, financial, and administrative considerations. It is advisable to seek professional advice from legal and insolvency practitioners to navigate the winding-up process effectively and comply with the applicable laws and regulations.

Interactive Activity: Factors Contributing to the Suitability of Forming a Private Limited Company

Let's engage in an interactive activity where we'll explore the factors that make forming a private limited company suitable for certain business scenarios. Here's the outline of the activity:

Scenario: You and a group of participants are entrepreneurs considering different business structures for your startup venture. The aim is to analyze various factors and determine whether forming a private limited company is the most suitable option for your business idea.

Instructions:

- a. Divide the participants into small groups, ideally 3-5 participants per group.
- b. Assign roles within each group: a facilitator, a note-taker, and other participants as required.
- c. Each group will work collaboratively to identify and discuss factors that contribute to the suitability of forming a private limited company.
- d. The facilitator will guide the group through the activity, ensuring all factors are thoroughly discussed, and the note-taker will document the key points raised during the process.
- e. Allow approximately 20-30 minutes for the group to complete the activity.

You may consider the following factors:

1. Legal Structure Analysis:
 - Discuss the advantages and disadvantages of different business structures (sole proprietorship, partnership, corporation, etc.).
 - Identify the specific legal benefits of a private limited company, such as limited liability protection and separate legal entity status.
2. Growth and Expansion Potential:
 - Evaluate the scalability of the business idea and the potential for future growth.
 - Discuss how the structure of a private limited company can facilitate raising capital through equity financing and attracting investors.

3. Risk Management:

- Analyze the importance of limited liability protection for shareholders and directors.
- Explore how a private limited company structure can shield personal assets from business liabilities.

4. Governance and Decision-making:

- Discuss the flexibility in management and decision-making offered by the company's articles of association.
- Explore the advantages of having a board of directors and defined corporate governance procedures.

5. Tax Implications:

- Consider the tax advantages and implications associated with operating as a private limited company.
- Discuss factors such as corporate tax rates, dividend taxation, and potential tax planning opportunities.

6. Branding and Credibility:

- Examine how the status of a private limited company can enhance the business's credibility and market perception.
- Discuss the importance of branding and how a formal legal structure can contribute to building trust with customers, suppliers, and partners.

Once the groups have completed the activity, they can present their findings and conclusions to the larger group for discussion and comparison. This interactive activity encourages participants to critically evaluate the factors influencing the suitability of forming a private limited company and gain insights into the decision-making process for structuring a business entity.

RESOURCES: Sample Memorandum and Articles of Association**THE COMPANIES ACT, 2017 (XIX of 2017)****(COMPANY LIMITED BY SHARES)****MEMORANDUM OF ASSOCIATION**

1. The name of the company is _____ [**Select Type of Company**]
2. The registered office of the Company will be situated in [**Select a Province**]
3.
 - (i) The principal line of business of the company shall be to carry on the business of services legally permissible, sale, purchase, import, export and to act as general traders, general order suppliers of products commodities, material legally permissible in any form or shape, manufactured, semi manufactured, raw materials supplied by any company, firm, association of persons, body, whether incorporated or not, individuals, government, semi-government or any local authority, as permissible under law but will not undertake MLM business or akin to that.
 - (ii) Except for the businesses mentioned in sub-clause (iii) hereunder, the company may engage in all the lawful businesses and shall be authorized to take all necessary steps and actions in connection therewith and ancillary thereto.
 - (iii) Notwithstanding anything contained in the foregoing sub-clauses of this clause nothing contained herein shall be construed as empowering the Company to undertake or indulge, directly or indirectly in the business of a Banking Company, Non-banking Finance Company (Asset Management Services, Leasing, Investment Finance Services, Investment Advisory Services, REIT management Services, Housing Finance Services, Private Equity and Venture Capital Fund Management Services, Discounting Services, Pension Fund Scheme Business, Micro Financing), Corporate Restructuring Company, Insurance Business, Modaraba management company, Stock Brokerage business, forex, Clearing House, Securities and Futures Advisor, Commodity Exchange, managing agency, business of providing the services of security guards or any other business subject to license and restricted under any law for the time being in force or as may be specified by the Commission.
 - (iv) It is hereby undertaken that the company shall not:
 - (a) engage in any of the business mentioned in sub-clause (iii) above or any unlawful operation;

- (b) launch multi-level marketing (MLM), Pyramid and Ponzi Schemes, or other related activities/businesses or any lottery business;
- (c) engage in any of the permissible business unless the requisite approval, permission, consent or license is obtained from competent authority as may be required under any law for the time being in force.

4. The Liability of the Members is Limited.

5. The Authorized Capital of the Company is Rs. 100,000/- (Rupees One Hundred Thousand only) divided into 1,000 (One Thousand) Ordinary shares of Rs. 100/- (Rupees One Hundred only) each.

Choose an item. subscribed below, **Choose an item.** desirous of being formed into a company, in pursuance of this memorandum of association, **Choose an item.** to take the number of shares in the capital of the company as set opposite our respective name(s):

Name and surname (present & former) in full (in Block Letters)	NIC No. (in case of foreigner, Passport No)	Father's/ Husband's Name in full	Nationality (ies) with any former Nationality	Occupation	Usual residential address in full or the registered / principal office address for a subscriber other than natural person	Number of shares taken by each subscriber (in figures and words)	Signatures
		Total number of shares taken (in figures and words)					

Dated the day of, **Enter a Date**

Witness to above signatures: (For the documents submitted in physical form only, **Remove in case of Online application submission**)

Signature	
Full Name (in Block Letters)	
Father's/ Husband's name	
Nationality	
Occupation	
NIC No.	
Usual residential address	

RESOURCES: Sample Memorandum and Articles of Association

THE COMPANIES ACT, 2017 (XIX of 2017)

(Private Company Limited by Shares)

ARTICLES OF ASSOCIATION

OF

..... **(PRIVATE) LIMITED**

[Name of the Company]

1. The Regulations contained in Table 'A' to the First Schedule to the Companies Act, 2017 (the "Act") shall be the regulations of **(PRIVATE) LIMITED** (the "Company") so far as these are applicable to a private company.

PRIVATE COMPANY

2. The Company is a "Private Company" within the meaning of Section 2(1)(49) of the Act and accordingly:

- (1) No invitation shall be made to the public to subscribe for the shares or debentures of the Company.
- (2) The number of the members of the Company (exclusive of persons in the employment of the Company), shall be limited to fifty, provided that for the purpose of this provision, where two or more persons hold one or more shares in the company jointly, they shall be treated as single member; and
- (3) The right to transfer shares of the Company is restricted in the manner and to the extent herein appearing.

TRANSFER OF SHARES

3. A member desirous to transfer any of his shares shall first offer such shares for sale or gift to the existing members and in case of their refusal to accept the offer, such shares may be transferred to any other person, as proposed by the transferor member, with the approval of the Board of Directors.

DIRECTORS

4. The number of directors shall not be less than two or a higher number as fixed under the provisions of the Act. The following persons shall be the first directors of the Company and shall hold the office upto the date of First Annual General Meeting:

1.
2.
3.

We, the several persons whose names and addresses are subscribed below, are desirous of being formed into a company, in pursuance of these articles of association, and we respectively agree to take the number of shares in the capital of the company set opposite our respective names:

Name and surname (present & former) in full (in Block Letters)	NIC No. (in case of foreigner, Passport No)	Father's/ Husband's Name in full	Nationality (ies) with any former Nationality	Occupation	Usual residential address in full or the registered/ principal office address for a subscriber other than natural person	Number of shares taken by each subscriber (in figures and words)	Signatures
		Total number of shares taken (in figures and words)					

Dated the _____ day of _____, 20_____

Witness to above signatures: *(For the documents submitted in physical form)*

Signature	
Full Name (in Block Letters)	
Father's/ Husband's name	
Nationality	
Occupation	
CNIC No.	
Usual residential address	

PUBLIC LIMITED COMPANY

IN THIS MODULE:

AT A GLANCE OVERVIEW:

1. Brief description of a Public limited Company,
2. Its General Features, advantages and disadvantages
3. Roles and responsibilities of directors and shareholders.
4. Its formation and compliance and dissolution.

- ✓ Expert Tips
- ✓ Good To Know Notes
- ✓ Illustration
- ✓ Important Notes

AT A GLANCE

A Public Limited Company, a prevalent business structure in Pakistan, is characterized by limited liability and a number of shareholders, at least 3. This structure provides a separate legal identity, shielding personal assets from business liabilities.

Public Limited Companies offer advantages like limited liability, perpetual succession, and ease of transferability of shares. However, disadvantages include increased compliance requirements and cannot make an offer of their shares to general public unless they are listed on stock exchange.

The incorporation process involves name reservation, submission of required documents to the Securities and Exchange Commission of Pakistan (SECP), and obtaining a certificate of incorporation. Legal requirements encompass compliance with the Companies Act, 2017.

The Memorandum of Association outlines the company's objectives, and the Articles of Association define internal rules. Key contents include business objectives, share capital, and rules for shareholder meetings.

This module covers essential aspects of Public limited companies, including their characteristics, advantages, incorporation process, legal requirements, and the roles of shareholders and directors. It delves into taxation considerations, post-incorporation compliances, and offers interactive activities and visual aids for an immersive learning experience. Participants explore real case studies, work through incorporation scenarios, and access practical resources for a comprehensive understanding of Public limited company registration in Pakistan.

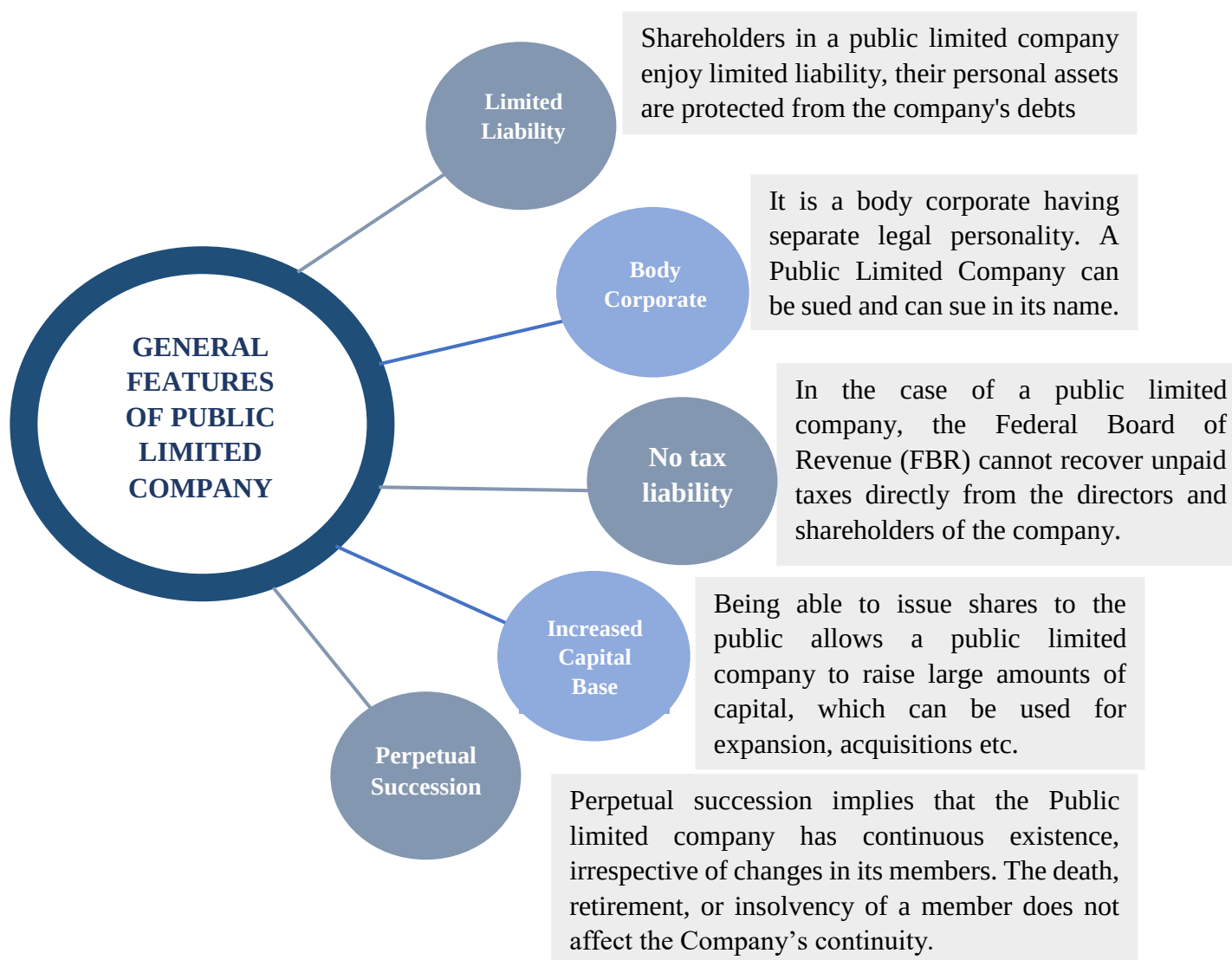
DEFINITION OF A PUBLIC LIMITED COMPANY

1.

What is a Public Limited Company?

A public limited company is a company which by its articles does not restrict the right to transfer its share; limit the number of its members to fifty not including persons who are in the employment of the company; and prohibit any invitation to the public to subscribe for the shares, if any, or debentures or redeemable capital of the company – by fulfilling requirements under Securities Act, 2015 and Prospectus issuance to general public after approval of SECP

GENERAL FEATURES OF PUBLIC LIMITED COMPANY



ADVANTAGES AND DISADVANTAGES OF A PUBLIC LIMITED COMPANY

Advantages:

Every business structure has its pros and cons, and the same applies to a public limited company. A public limited company is a type of business entity that can offer its shares to the general public through a stock exchange. It has distinct advantages and disadvantages that entrepreneurs and investors should consider when deciding on the appropriate structure for their business. Understanding these factors can help in making informed decisions and aligning business goals with the benefits and challenges associated with a public limited company.

The following are some of the key characteristics of Public Limited Company in Pakistan:

1

Access to Capital

One of the key advantages of a public limited company is the ability to raise significant capital by issuing shares to the public. The company can generate funds through initial public offerings (IPOs) and subsequent offerings, providing opportunities for expansion, investment, and growth.

2

Liquidity for Shareholders

Public limited companies offer liquidity to shareholders as their shares are listed and traded on stock exchanges. Shareholders have the opportunity to buy and sell shares, allowing them to convert their investment into cash if needed.

3

Enhanced Market

Being a publicly listed company provides greater visibility and exposure to the market. Being listed with a stock exchange enhances the company's reputation, credibility, and ability to attract customers, partners, and investors.

4

No tax liability for Income

In the case of a public limited company, the Federal Board of Revenue (FBR) cannot recover unpaid taxes directly from the directors and shareholders of the company.

5

Brand Image and Investor Confidence

Public limited companies often enjoy a higher level of credibility and trust in the eyes of investors, suppliers, and customers due to their transparent operations, adherence to regulatory requirements, and corporate governance practices.

Disadvantages:

While Public Limited Company offer many advantages, there are also some potential disadvantages to consider:



Regulatory Compliance: Public limited companies are subject to extensive regulatory requirements, including reporting obligations, disclosure rules, and corporate governance standards. Compliance with these regulations can be time-consuming and costly, requiring dedicated resources and expertise.



Loss of Control: As a public limited company, ownership is spread among a large number of shareholders. This can result in a loss of control for the founders and initial shareholders, as decision-making may be influenced by the interests and opinions of numerous stakeholders.



Market Volatility: Publicly traded shares are subject to market fluctuations, which can impact the company's valuation and shareholder value. Stock price volatility can be influenced by various external factors, including economic



Increased Scrutiny and Public Exposure: Public limited companies face heightened scrutiny from investors, regulatory authorities, and the public. Any missteps or negative events can lead to reputational damage, investor concerns, and potential legal consequences.



Cost and Complexity: The process of becoming and operating as a public limited company can be costly and complex. Expenses related to regulatory compliance, investor relations, public disclosures, and maintaining a stock exchange listing can add financial and administrative burdens to the company.

Overall, while Public Limited Company offer many advantages, there are also potential disadvantages to consider. Entrepreneurs and professionals in Pakistan should carefully evaluate their options and consult with legal and financial advisors to determine the best business structure for their specific needs and circumstances.



Remember! A public limited company also comes with challenges related to regulatory compliance, loss of control, market volatility, increased scrutiny, and added costs. Evaluating these pros and cons in the context of specific business goals and circumstances is crucial for entrepreneurs and investors to determine if a public limited company structure aligns with their objectives and risk tolerance.

LEGAL REQUIREMENTS FOR INCORPORATION

- 01 **At least three Members:** An LLP must have at least two partners, who can be individuals or other businesses. Any individual or body corporate or company may become a partner in a limited liability partnership.
- 02 **Name reservation:** A name for the Public Limited Company must be reserved with the Securities and Exchange Commission of Pakistan (SECP) prior to registration.
- 03 **Signup with SECP portal:** The members of the company must obtain a digital signature from a certifying authority for electronic filing of documents with the SECP.
- 04 **Memorandum and Articles:** A Public Limited Company must be drafted and executed by the subscribers of the company. These documents should outline the terms and conditions of the company and the rights and obligations of the members.
- 05 **Documents required:** Valid computerized National ID card of the members and drafted Memorandum of Association and Article of Association will be required.
- 06 **Registered office:** The Company must have a registered office in Pakistan, which must be declared in the application for registration.



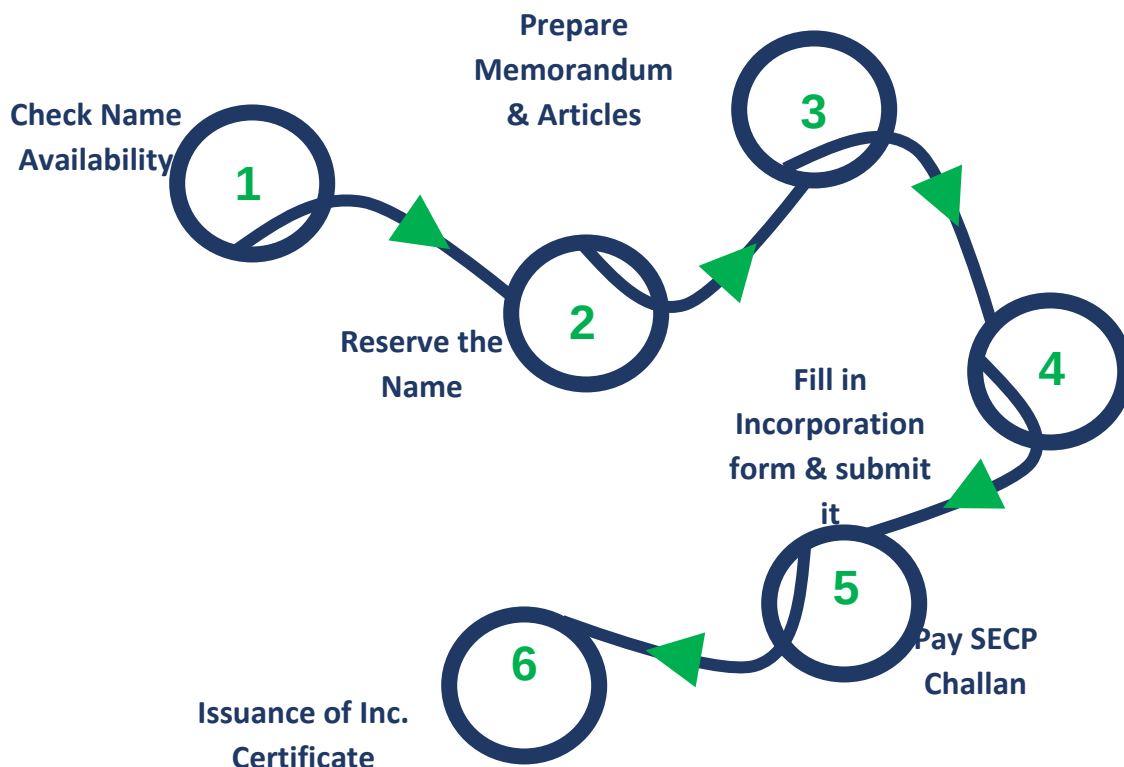
Good to Know

In case you do not have acquired your office, you can mention your residential address as correspondence address at the time of incorporation of your company and can report your registered office address within 28 days.



Remember! To sign-up with SECP portal, your phone number must be registered against your National Identity Card.

PROCESS OF INCORPORATION



The process of incorporation of a public limited company is same as that of a private limited company as mentioned in the previous module. It involves signing up with SECP portal by each subscriber/shareholder, reserving name of the company, Drafting and preparation of memorandum and articles of association, filing online application with SECP and paying incorporation fees. After verification from registrar, the proposed company is incorporated and he will send the Incorporation certificate through email. Meanwhile, the company is also registered with FBR automatically and FBR credentials will be received on the phone number of the CEO through SMS.

Expert Tip

Remember! Any person having age of majority (18 years) can be a member or shareholder of a company. At least three members/ directors are required to form a public limited company. A person shall not be eligible for appointment as a director of a company if he is a minor



Good to Know

After Incorporation, a public limited company is required to file declaration of commencement of business to registrar after fulfilling statutory conditions like allotment of shares and payment thereof and undertaking in respect of such compliance by the CEO or secretary,

**Good to Know**

The most important consideration when choosing a name is ensuring that no other person or entity is currently using the name. This consideration is guided by two factors.

First, your use of a business name may infringe on the trademark or service mark rights of others. Infringing on trademark or service mark rights may result in legal complications.

Second, the SECP will not register a new Company with the same name or substantially similar name as an existing Company.

Thus, you may wish to search the trademarks and Company names in use to ensure that your desired name is available.

PROSPECTUS AND ITS CONTENTS

In relation to a public limited company in Pakistan, a prospectus is a legal document that provides detailed information about the company, its operations, financials, and securities being offered to the public. The prospectus is issued by companies when they intend to raise capital through an initial public offering (IPO) or subsequent public offerings.

Reasons for Issuing a Prospectus:

01

Capital Raising: The primary purpose of issuing a prospectus is to raise capital from the public by offering shares or other securities. The prospectus provides potential investors with relevant information to make informed investment decisions.

02

Investor Protection: The prospectus serves as a means to provide comprehensive and accurate information about the company's affairs, financial position, management, and associated risks. It ensures transparency and investor protection by disclosing material facts and potential risks.

03

Regulatory Compliance: Issuing a prospectus is a legal requirement under the Companies Act, 2017, and the regulations of the Securities and Exchange Commission of Pakistan (SECP). Companies must comply with these regulations to ensure fair and transparent capital markets.

Statement in Lieu of Prospectus:

If a public limited company does not issue a prospectus to the public, it may file a "Statement in Lieu of Prospectus" with the Registrar of Companies. This statement contains similar information to a prospectus and is filed before the company offers its shares to the public.

Contents of a Prospectus:

The Companies Act, 2017, and the SECP regulations outline the key contents that must be included in a prospectus issued by a public limited company in Pakistan. These contents typically include:

1

Company Information: Details about the company's name, registered office address, incorporation date, and legal form.

2

Objectives and Business Description: The Company's objectives, main business activities, and the markets it operates in.

3

Financial Information: Audited financial statements, including balance sheets, profit and loss accounts, cash flow statements, and other relevant financial data.

4

Management and Directors: Information about the company's management team, directors, their qualifications, and experience.

5

Share Capital and Securities: Details of the company's share capital, classes of shares, offering price, number of securities being offered, and any restrictions or special features attached to the securities.

6

Risk Factors Description: Disclosure of potential risks associated with investing in the company, including industry risks, market risks, regulatory risks, and financial risks.

7

Use of Proceeds: Information on how the company intends to use the funds raised through the offering, such as investments, working capital, debt repayment, or acquisitions.

8

Legal and Regulatory: Any legal or regulatory proceedings involving the company, material contracts, licenses, or permits required for its operations.

9

Promoters and Underwriters: Details of the promoters of the company and any underwriters involved in the offering.

10

Other Information: Additional information necessary to provide a fair and complete understanding of the company's affairs, as required by the Companies Act, 2017, and SECP regulations.



Remember! It's important to note that the contents of a prospectus may vary depending on the nature of the offering, the company's industry, and specific regulations at the time of issuance. Companies must ensure compliance with the relevant laws and regulations and seek legal advice when drafting and issuing a prospectus in Pakistan.

SHAREHOLDERS, DIRECTORS AND THEIR ROLES AND RESPONSIBILITIES

Shareholders and directors play crucial roles in both public limited companies and unlisted companies. Let's explore their roles in each type of company:

Shareholders:

Shareholders are individuals or entities who own shares in a company, representing their ownership interest. They contribute capital to the company in exchange for shares and have certain rights and responsibilities.

Shareholders in a public limited company have the following roles and responsibilities which are enumerated as under:



Voting Rights: Shareholders exercise their voting rights to elect directors, approve major company decisions, and vote on other matters discussed during general meetings.



Monitor The Conduct of the BOD: Shareholders have a responsibility to monitor the conduct of the board of directors and exercise their voting rights by casting thoughtful and informed votes that safe-guard their financial and other interests.



Attend Shareholders Meetings: Shareholders attend annual general meetings or extraordinary general meetings to decide on key decisions of the company.



Investment: Shareholders own a portion of the company's equity through their shareholdings. They inject capital when required by the company.

**Good to Know**

As owners of the company, shareholders have a unique relationship to the board and the management. They must rely on the board of directors, whom they elect for managing the affairs of the company, using their right to vote at shareholders' meetings. To protect their long-term economic interests, shareholders have a responsibility to monitor the conduct of the board of directors and exercise their voting rights by casting thoughtful and informed votes that safeguard their financial and other interests.

Directors:

Directors are appointed by the shareholders to manage the company's affairs, make strategic decisions, and ensure compliance with legal and regulatory requirements.

Directors in a public limited company have the following roles and responsibilities:



Board Meetings: The affairs of a company are operationally managed by the CEO; the directors make decisions in the board meetings and the CEO is bound to follow and implement the decisions of the board.



Strategic Decision-Making: Directors play a key role in formulating and implementing the company's strategies, setting goals, and making significant business decisions.



Corporate Governance: Directors are responsible for maintaining effective corporate governance practices, ensuring transparency, and safeguarding the interests of shareholders and stakeholders.



Compliance and Reporting: Directors oversee the company's compliance with legal and regulatory obligations, including financial reporting, disclosure requirements, and corporate governance standards.



Board Representation: Directors represent the interests of shareholders and act in the best interests of the company. They participate in board meetings, contribute to discussions, and provide guidance and oversight.



Fiduciary Duty: Directors have a fiduciary duty to act honestly, diligently, and in good faith, with the utmost care and skill, in the best interests of the company and its shareholders.

Expert Tip

Directors stand retired after every three years of their appointment except that the first directors of a company are retired in the first annual general meeting of the company.



It's important to note that the specific roles and responsibilities of shareholders and directors may be further defined in the company's Articles of Association, internal policies, and applicable laws and regulations. Each company may have variations in these roles based on its specific circumstances, structure, and governance practices.

TAXATION OF A PUBLIC LIMITED COMPANY

Taxation compliance for a public limited company in Pakistan involves fulfilling obligations related to income tax, sales tax, and professional tax. Let's discuss each of these tax compliance requirements:

Income Tax:

Public limited companies are required to pay income tax on their taxable income at the applicable corporate tax rates. They must calculate their income tax liability based on the annual financial statements prepared in accordance with the Income Tax Ordinance, 2001. Tax rate on small company is 20%, Banking company is 35% and any other company is 29%.

Public limited companies are also responsible for deducting and withholding tax on various payments made to suppliers, contractors, employees, and other parties as specified under the Income Tax Ordinance. This includes deductions for salaries, contracts, dividends, interest, and royalties, among others





Public limited companies must file their annual income tax return, along with the audited financial statements, with the Federal Board of Revenue (FBR) within the prescribed deadline. The return should provide accurate information about the company's income, deductions, and tax liability. They are also required to file quarterly and annual withholding tax statements with FBR.

Sales Tax:

Public limited companies engaged in the supply of taxable goods are required to charge, collect, and remit sales tax under the Sales Tax Act, 1990. They must register for sales tax with the FBR and obtain a Sales Tax Registration Number (STRN).



Public limited companies registered with sales tax must file monthly sales tax returns, providing details of their taxable supplies, output tax collected, and input tax paid. The returns should be filed within the specified due dates, accompanied by the relevant supporting documents.



Public companies are withholding agents for sales tax. They are required to register as withholding agent with FBR if it is not liable to be registered with sales tax. Even if the company is not registered with sales tax, it has to deduct sales tax from its payments on purchases of tangible goods which are taxable and a monthly withholding statement is required to be filed with FBR along with particulars of supplies as prescribed in the return through FBR online portal.

Sales tax on services:

In addition to federal sales tax compliance, public limited companies operating in Pakistan are also subject to service sales tax (SST) if they provide taxable services in certain provinces. Sales tax on services is a provincial subject and is levied and collected by each province such as Punjab, Sindh, Khyber Pakhtunkhwa, Balochistan and Islamabad, capital territory. A company providing taxable services in a province is required to be registered with the relevant revenue authority and charge service sales tax on their invoices and deposit service sales tax at prescribed rates. Public limited companies must file monthly service sales tax returns, providing details of their taxable supplies, output tax collected, and input tax paid. The returns should be filed within the specified due dates, accompanied by the relevant supporting documents.





RECORD KEEPING CONSIDERATIONS FOR A PUBLIC LIMITED COMPANY

Record keeping is essential for public limited companies in Pakistan to ensure compliance with legal and regulatory requirements and maintain accurate and organized records. Companies have to comply with the record keeping requirements set out in the companies Act, 2017, Income tax Ordinance, 2001, Sales tax Act, 1990 (If applicable) and Service sales tax Act of province where it is registered.

Here are some key record-keeping considerations for a public limited company in Pakistan:

a Financial Records

- 01 **Accounting Books:** Maintain comprehensive accounting books, including general ledger, cashbooks, sales records, purchase records, and journals. These records should accurately reflect the company's financial transactions and enable the preparation of financial statements.
- 02 **Financial Statements:** Prepare and retain copies of financial statements, including balance sheets, profit and loss statements, cash flow statements, and statement of changes in equity. These statements provide an overview of the company's financial performance and position.
- 03 **Audited Financial Reports:** Keep copies of audited financial reports prepared by external auditors. These reports provide an independent assessment of the company's financial statements and compliance with accounting standards.

04

Tax Records: Maintain records related to income tax, sales tax, and other tax compliance, including tax returns, tax payments, tax withholding statements, and supporting documents.

b

Corporate Governance and Compliance

01

Board Meeting Minutes: Document and retain minutes of board meetings, including discussions, decisions, and resolutions. These minutes serve as evidence of compliance with corporate governance requirements and provide a historical record of board activities.

02

Shareholder Meeting Records: Keep records of shareholder meetings, including notices, agendas, minutes, and voting results. These records demonstrate compliance with statutory requirements and shareholder engagement.

03

Corporate Registers: Maintain registers of shareholders, directors, officers, and other key company details. These registers should be kept up to date and reflect changes in ownership, directorship, and other corporate matters.

04

Regulatory Filings: Retain copies of regulatory filings, such as annual returns, prospectuses, statutory forms, and notifications submitted to regulatory authorities like the Securities and Exchange Commission of Pakistan (SECP).

c

Other Matters

01

Contractual Documents: Keep copies of contracts, agreements, and legal documents entered into by the company, including client contracts, supplier agreements, lease agreements, and intellectual property licenses.

02

Employment Records: Maintain employee records, including employment contracts, salary details, leave records, performance evaluations, and termination documents.

03

Intellectual Property Records: Preserve records related to intellectual property, such as trademarks, copyrights, and patents. Maintain documentation of registration, renewal, and any legal proceedings related to intellectual property rights.



Remember! Proper record keeping not only ensures compliance but also supports effective decision-making, facilitates audits, and provides a historical record of the company's activities. It is important for public limited companies in Pakistan to establish record-keeping policies and systems, regularly review and update records, and seek professional advice to ensure compliance with specific record-keeping requirements and regulations applicable to their industry and jurisdiction.



Ameer Ali is a well-educated man having a decade long experience in the banking sector. He is a well-connected person due to his previous Job in the banking sector. He identifies a great potential in the microlending sector and wants to form a microfinance company. He needs funding which he has managed hundred investors who have undertaken to invest sizeable amount of capital.

Ali is mindful of the fact that the investors would be looking for liability protection, credible business structure, transparent governance, flexibility in ownership and management, scalability and growth potential, regulatory compliance, and protection of minority rights.

In light of the above requirements of the investors, Ali has to form a Public limited company as the number of members are hundred and only a public limited company can be formed to accommodate hundred investors as shareholders.

It can enlist with the stock exchange and enable its shares to be traded on a stock exchange. This brings both opportunities and responsibilities – with the potential for increased capital through more shareholders, but also adherence to strict regulations and reporting requirements. As shareholders, their liability remains limited to the amount they've invested, safeguarding their personal assets. The allure of potential growth attracts more investors to buy and sell shares on the stock exchange, making the company a publicly traded entity with a broader ownership base.

RESOURCES: Sample Statement In Lieu Of Prospectus**PART II. FORM OF STATEMENT IN LIEU OF PROSPECTUS TO BE DELIVERED TO REGISTRAR BY A COMPANY WHICH DOES NOT ISSUE A PROSPECTUS OR WHICH DOES NOT GO TO ALLOTMENT ON A PROSPECTUS ISSUED, AND REPORTS TO BE SET OUT THEREIN****SECTION 1**
FORM OF STATEMENT AND PARTICULARS TO BE
CONTAINED THEREIN*(Pursuant to section 69 of the Companies Ordinance, 1984)*

1. Name of the company:-
2. Corporate Universal Identification No.
(CUIN):
3. Registered Office:
4. Telephone No.
5. Fax No.
6. Website Address:
7. E-mail Address:
8. Authorized share capital of the company: -

S. No.	Kind of shares	Class of shares	Face/nominal value Rs.	Number of shares	Total Amount (Rs.)	Special rights in case of other than ordinary shares
1.						
2.						
3.						

9. Description of the business to be actually undertaken: -

10. Future prospects of the said business: -

11. Particulars of chief executive, directors, company secretary, chief accountant, chief financial officer, auditor, legal advisor and managing agent (if any) of the company:

Name *	Father's/ husband's name	CNIC No.	Occupation and directorship in other company **	Tele. No.	Cell No	E-mail Address	Residential Address ***
(a) Chief Executive							
(b) Directors:-							
(1)							
(2)							
(3)							
(4)							
(5)							
(6)							
(7)							
(c) Company Secretary:-							
(d) Chief Accountant/Chief Financial Officer:-							
(e) Auditor(s) of the company:-							
(f) Legal advisor: -							

(g) Managing agent; if any: -						

12. Remuneration payable to the persons referred to in 11 above: -

S. No.	Position in the Company	Remuneration payable	Relevant provision of article, if any	Relevant clause of agreement if any
(a)	Chief Executive			
(b)	Directors			
	(1)			
	(2)			
	(3)			
	(4)			
(c)	Company Secretary			
(d)	Chief Accountant / Chief Financial Officer			
(f)	Auditor			
(g)	Legal Advisor			
(h)	Managing Agent			

13. Number and amount of shares to be issued, including those agreed to be taken by virtue of Memorandum of Association for cash: -

S. No.	Kind of shares	Class of shares	Face / Nominal Value	Number of shares	Amount	Names of person who agree to subscribe the shares

14. Number and amount of shares agreed to be issued for consideration otherwise than in cash: -

Number of shares	Face / nominal Value	Amount	Details of consideration otherwise than in cash	Date for exercising the option	To whom option offered

15. Commission agreed to be paid for arranging the subscribers of shares: -

Nature of the commission	Number of shares agreed to be subscribed against the commission	Rate of the commission	Amount of the commission paid	Amount of the commission payable	Direct or indirect interest if any, of the persons, stated in clause 11

16. Number and amount of debentures agreed to be issued for cash: -

Number of debentures	Face/ Nominal Value	Amount	Date for exercising the option	To whom option offered	Whether offer accepted Yes / No

17. Number and amount of debentures agreed to be issued for consideration otherwise than in cash: -

Number of debentures	Face Value	Amount	Details of consideration	Date for exercising the option	To whom option offered	Whether offer accepted Yes / No

18. Commission agreed to be paid for arranging the subscribers of debentures: -

Nature of the commission	Number of debentures agreed to be subscribed against the commission	Rate of the commission	Amount of the commission paid	Amount of the commission payable	Direct or indirect interest if any, of the persons, stated in clause 11

19. Details of every agreement entered into since the date of incorporation relating to property or other intangible assets of the value exceeding Rs.100,000/-: -

Name(s) & address(es) of the vendor/purchaser	Particulars of the property or other	Amount intended to be	Consideration	Direct or indirect
	intangible assets intended to be purchased or sold	paid or received in cash		interest if any, of the persons, stated in clause 11

20. Details of all other material contracts executed or intended to be executed by the company: -

S. No.	Nature of contract	Dates and places of execution of contracts	Time and place for inspection of contracts	Name of the parties to contracts	Important terms & conditions of contracts	Direct or indirect interest if any, of the persons, narrated in clause 11
1.						
2.						
3.						

(Copies of contracts to be enclosed. If a contract is not reduced in writing, a memorandum giving full particulars and if not in English, its translation in English or Urdu shall be enclosed)

21. In case it is proposed to acquire a running business, net profit / loss of that business as certified by the auditor for the last 5 years or such number of years being less than five years for which the business has been carried on: -

Year ended	Amount of net profit / loss	Business carried on since (date)	Direct or indirect interest, if any, of the persons, stated in clause 11

22. Details of preliminary expenses: -

S. No.	Particulars of payment	Amount of preliminary expenses	Paid Payable to	/ Paid by	Payable by	Consideration (in cash kind or specified be
1.						
2.						
3.						
4.						

23. Minimum subscription and its proposed utilization

Amount of minimum subscription		
Proposed utilization of minimum subscription: -		
(i)	Price of any property purchased or to be purchased.	
(ii)	Preliminary expenses payable by the company.	
(iii)	Commission payable to any person in consideration of his agreeing to subscribe or procure any shares in the company	
(iv)	Repayment of any moneys borrowed by the company in respect of any of the foregoing matters.	
(v)	Working capital.	
(vi)	Other expenditures.	

24. Amount to be provided in respect of the matters aforesaid otherwise than out of the proceeds of minimum subscription and the sources out of which those amounts to be provided.

S. No.	Amount	Source of funds

25. Signatures of the Directors or their agents authorized in writing.

S. No.	Name	Signature

Date: -----

COMPARISON OF BUSINESS STRUCTURES

IN THIS MODULE:

AT A GLANCE OVERVIEW:

1. Importance of choosing the right business structure.
2. Comparison of various business structures.
3. Transition from one business to another.
4. Key take aways from this manual.
5. Future trends and developments.
 - ✓ Expert Tips
 - ✓ Good To Know Notes
 - ✓ Illustrations
 - ✓ Scenarios

AT A GLANCE

This module compares various business structures to understand the distinct features of each structure.

Choosing the right business structure is crucial, with sole proprietorships offering simplicity but exposing owners to unlimited liability.

Partnerships allow shared resources but come with joint and several liability. Limited Liability Partnerships (LLPs) provide limited liability protection and flexibility, while Private Limited Companies offer a separate legal entity status with additional compliance requirements.

Transitioning between structures demands careful planning and adherence to regulatory procedures, highlighting the need for professional advice.

Looking ahead, trends suggest a rising preference for limited liability structures, growth in startups, an emphasis on corporate governance, and the impact of technological advancements. The regulatory landscape is expected to evolve, and businesses may focus on socially responsible models. Staying informed and consulting professionals will be essential for making informed decisions in Pakistan's dynamic business environment.

CHOOSING THE RIGHT LEGAL STRUCTURE FOR YOUR BUSINESS

1.

Comparison of business structures

The comparison of business structures is a crucial step in selecting the right framework for your enterprise. Understanding the different business structures, such as sole proprietorship, partnership, limited liability Partnership, and Limited company, allows entrepreneurs to make informed decisions regarding legal, financial, and operational aspects.

By evaluating the advantages and disadvantages of each structure, individuals can align their business goals, risk tolerance, taxation preferences, and liability protection needs with the most suitable business entity. This comparison enables entrepreneurs to optimize their resources, protect their personal assets, minimize tax obligations, and establish a solid foundation for long-term success.

COMPARISON OF DIFFERENT BUSINESS STRUCTURES IN TERMS OF LIABILITY, OWNERSHIP, TAXATION, ETC

Sole Proprietorship Vs Single Member Company

Let's compare the basic features of a Sole Proprietorship with a Single Member Company.

Sole Proprietorship

Single Entity:

There is no distinction between the Owner and the business.

Unlimited Liability:

The liability of the owner is unlimited

Individual Taxation:

Income generated by the business is treated as income of the owner.

Succession:

The business ends with death of the owner.

Single Member Company

Separate Entities:

The Owner and the business are separate entities.

Limited Liability:

The liability of the owner is limited.

Company Taxation:

The business is taxed separately.

Succession:

The business has perpetual succession.

Scenario I:

Let's start with a scenario: Mr. Waseem has just retired and received a substantial amount from his retirement benefits, he seeks to engage in a productive venture. Considering his newly acquired free time, he plans to invest in a garment-selling business with the goal of generating additional income to cover household expenses. His focus is on immediate financial benefits without harboring long-term aspirations.

In the given scenario, Mr. Waseem's plan to start a garment-selling business seems to align with the features of a sole proprietorship. Here's an evaluation based on the characteristics of a sole proprietorship:

Single Ownership: A sole proprietorship is owned and operated by a single individual, and in this case, Mr. Waseem is the sole owner of the garment-selling business.

Decision-Making Authority: As the sole proprietor, Mr. Waseem has complete control over decision-making for the business.

Profit and Loss: He will personally receive all profits but will also be personally responsible for any losses incurred by the business.

Ease of Formation: Sole proprietorships are relatively easy and cost-effective to set up, making them suitable for individuals looking for a straightforward business structure.

Tax Implications: In a sole proprietorship, business income is typically treated as the personal income of the owner for tax purposes. Since he has a small-scale business and is a retailer, he is not required to be registered for sales tax.

Considering Mr. Waseem's immediate financial goals, a sole proprietorship may be a suitable choice. It offers simplicity in terms of management and decision-making, which aligns with his focus on generating additional income for household expenses without harboring long-term aspirations. However, it's important to note that while a sole proprietorship is easy to set up, it also means that Mr. Waseem would have unlimited personal liability for the business's obligations. Since his business does not carry much risk, therefore limited liability protection is not required in his circumstance, therefore, sole proprietorship business would be a better option as it will provide him tax benefits and lesser corporate and tax compliance.

Scenario II:

Arif works as a manager in a travel agency in Islamabad, and now he wants to start his own travel agency business. He's got good experience and connections, and he's saved up enough money to get started. His dad is also pitching in to help. Arif has a cool business name in mind, and he wants to make sure nobody else can use it. A friend told him to create a Single Member Private Limited Company for his business. According to his evaluation, his business does not carry any substantial risk. He wants to build his business and hopes his business does well.

In the given scenario, Arif's plan to start a travel agency aligns with the features of a sole proprietorship.

Considering Arif's simple business model, limited perceived risks, and his desire for control, a sole proprietorship could be a suitable choice. However, it's important to note that Arif also wants to protect his business name.

Registering the business as a Single Member Private Company, as suggested by his friend, may provide additional benefits such as limited liability and protection of the business name. But it may lead to excessive tax and compliance requirements. Therefore, the best option would be to apply for trademark registration of the brand name and choose sole proprietorship structure. This will keep his business compliance simple and lower burden of tax. In this scenario it will only have to file annual income tax returns. Its net Income up to Rs. 600,000/- will be exempt from income tax. And any Income more than the above limit will be subject to taxation at gradual rates.

It is also not liable to minimum tax which is tax chargeable on total turnover (sales/receipts) in case of lower profits or losses. Minimum tax is applicable on sole proprietorship business only if total annual turnover exceeds 100 million during a year.

Furthermore, it is not a withholding agent for sales tax purposes, thus it is not required to withhold sales tax on payments. Generally, Sole proprietorship is not a withholding agent for income tax unless it exceeds annual sales/ receipts of Rs. 100 million in a financial year.

If Arif goes with Single Member Company registration, then he will have to pay tax even if he incurs loss in his business. Furthermore, a company is liable to tax at least 20% on taxable profit and there is no basic exemption threshold.

Furthermore, company is a withholding agent for income and sales tax by default and it has to deduct and pay such taxes to respective authority which may lead to business complication at this nascent stage.

Minimum tax is also applicable on SMC Company, which will make it very difficult as he would be required to pay taxes even if it incurs losses and his startup may not bear the burden of tax which will hamper its growth. Therefore, sole proprietorship is suitable option in this case also.

Scenario III:

Nisar Akbar has just finished his electrical engineering degree and wants to start selling solar panels and related accessories. He'll also install them for his customers.

His father has been a senior banker and has good contacts with corporate entities. Nisar will provide services and sell solar products mainly to companies. He will procure goods from local vendors and will also import from abroad.

His big dream is to make his business a top brand known for great service. He even applied for a bank loan to get started. Since he's dealing with electrical stuff, there's some regular business risk involved.

Considering Nisar's ambitious goals, dealings with corporate entities, and the potential business risks associated with electrical products, forming a Single Member Company (SMC) might be more appropriate. The limited liability protection and formal structure could provide advantages in achieving his dream of creating a top brand.

Since he will be making good profit right away, corporate taxation would not matter him much considering his long-term aspirations. Nisar will not be drawing money from his business and his focus is on business expansion, therefore double taxation is also not his concern.

Since he will be dealing with corporate entities, he will not have any issues with withholding income tax or sales tax as the companies have to pay sales tax or income taxes any way.

Therefore, in this situation, SMC company will be a better option for him.

Sole Proprietorship Vs Partnership

A comparison of the basic features of a sole proprietorship with a partnership is as follows:



Ownership:

Owned by a single person.

Unlimited Liability:

The liability of the owner is unlimited

Individual Taxation:

Income generated by the business is treated as income of the owner.

Management

Easy to manage.

Profit & Loss sharing:

No profit loss sharing.



Ownership:

Owned by more than one person.

Unlimited Liability:

Partners are jointly and severally liable.

Taxation:

The business is taxed separately.

Management

May become hard due to difference of opinion among partners.

Profit & Loss sharing:

Profit or losses shared.

Continuing with the above example of scenario II. In case Arif wants to add his friend, who is a marketing professional. Arif needs to have extensive online marketing to attract client for his company. Arif has limited investment and he cannot pay his friend instead he offers 25% ownership in his business. In return, his friend Aslam also wants to take part in management decisions. They both are of the view that the business carries very less risk.

Considering the need for extensive online marketing and the limited investment, forming a partnership with Aslam could be beneficial. This allows for shared decision-making, leveraging Aslam's marketing expertise, and the ability to pool resources. However, it's important to carefully draft a partnership agreement outlining ownership percentages, roles, and responsibilities, especially considering the perceived low business risk.

Since there is no difference between taxation of sole proprietorship and a partnership apart from the fact that partnership is taxed as a separate entity and sole proprietorship is taxed as personal income of the owner. Moreover, share of profit of partner is included in the taxable income of the partner.

General Partnership Vs Limited Liability Partnership

A comparison of the basic features of a general partnership with a limited liability partnership is as follows:

GENERAL PARTNERSHIP

No Separate entity:

It is not a separate entity.

Unlimited Liability:

The liability of the partners is unlimited.

Taxation:

The business is taxed separately.

No Perpetual Succession:

The partnership is dissolved on death or retirement of the partnership.

Profit & Loss sharing:

Profit loss shared in accordance with ratio decided.

LIMITED LIABILITY PARTNERSHIP

Separate Entity:

It is a separate entity.

Limited Liability:

The liability of the partners is limited.

Taxation:

The business is taxed separately.

Perpetual Succession:

It has perpetual succession granted by law.

Profit & Loss sharing:

Profit or losses shared in accordance with ratio decided.

Let's take scenario III. If Nisar wants to add his father to his business since he will be actively taking part in the business and offers 50% share in the business.

Limited liability partnership requires formal registration with SECP and it is not created by a partnership agreement.

But in case of a general partnership, it is just created by a partnership deed and it is not mandatory to register with registrar of firms. Just registration with FBR will suffice. The partners cannot sue themselves and third parties in case of non-registration with registrar of firms.

General partnership may suit Nisar Akbar and his father if they prioritize flexibility and have a high level of trust. However, unlimited personal liability may be a concern considering the risky business. It offers the flexibility of a partnership with the added benefit of limited liability, protecting personal assets therefore, under the circumstances limited liability is suitable option.

Private Limited Company Vs Limited Liability Partnership

A comparison of the basic features of a private limited company with a limited liability partnership is as follows:

PRIVATE LIMITED COMPANY	LIMITED LIABILITY PARTNERSHIP
Separate entity: It is a separate entity.	Separate Entity: It is a separate entity.
Limited Liability: The liability of the members is limited.	Limited Liability: The liability of the partners is limited.
Double Taxation: The business is taxed separately. And subject to double taxation.	Taxation: The business is taxed separately.
Separation of Management and ownership: Management and ownership are separate of a private limited company.	Separation of Management and ownership: Management and ownership are not separate and the partners are the owners and also the managers.
Capital Infusion: Easy to raise capital through issuance of shares	Capital Infusion: Investors need to become partners for investment in the LLP.

Scenario IV

Saleem is a tech expert and he wants to build an ecommerce in the nature of daraz. He has teamed up with his three friends who are tech professionals and developed the application. Now they realize that they need to raise capital. Till now they were working informally, but they feel the need to formalize the business. They want to keep the day-to-day management with themselves and just want to issue them investors shares. The investors do not want to run the risk of unlimited liability.

In this scenario, limited liability partnership may not be the most suitable option as it doesn't allow the induction of investors solely as owners without them assuming a managerial role. In a limited liability partnership (LLP), there is no legal separation between ownership and management. Additionally, the sale of partnership shares in an LLP can be challenging and involves lengthy formalities.

Consequently, opting for a private limited company emerges as the optimal choice. This business structure facilitates investors to own shares without necessitating active involvement in managerial responsibilities. Furthermore, the private limited company model offers the advantage of limited liability protection, ensuring that the personal assets of the investors are safeguarded. This provides a clear demarcation between ownership and management roles, fostering a more flexible and streamlined approach for Saleem and his friends to raise capital and formalize their business operations.

Scenario V

Continuing with the above scenario. Let's assume that a common friend's father has agreed to fully finance the company, who is leading industrialist. They have committed to work full time for the business. They have also agreed with the investor that they would receive handsome salary from the company as well apart from sharing profit. The investor is indifferent about the legal structure of the business, his only condition that the business should be a limited liability enterprise.

In this situation, since the business is burning resources and is not generating higher profit. Going for a private limited company would entail straight 20% tax deduction on the income and they would also be subject to income tax and sales tax withholding obligations.

Now if they go for limited liability partnership registration, the profits would be subject to lower taxes, furthermore the business would also not be subject to minimum tax and tax withholding obligations (They estimate that the annual revenue would not exceed Rs. 100 million).

Private Limited Company Vs Public Limited Company

A comparison of the basic features of a private limited company with a public limited company is as follows:

 PRIVATE LIMITED COMPANY	 PUBLIC LIMITED COMPANY
Separate entity: It is a separate entity.	Separate Entity: It is a separate entity.
Limited Liability: The liability of the members is limited.	Limited Liability: The liability of the members is limited.
Double Taxation: The business is taxed separately. And subject to double taxation.	Double Taxation: The business is taxed separately. And subject to double taxation.
Public Offer: Cannot raise capital through issuance of shares to public.	Public Offer: Can raise capital through issuance of shares to public (through IPO)
Restriction on share transfer: In a private limited company, there is restriction on transfer of shares.	No Restriction on share transfer: In a public limited company, there is no restriction on transfer of shares.
Tax Liability: Tax authority can attach the assets and bank of shareholders and directors.	Tax Liability: Tax authority cannot attach the assets and bank of shareholders and directors.
Credibility: Lower.	Credibility: Higher.

Continuing with scenario IV, Saleem and his friends want protection from tax liability of themselves and they also plan to raise funds through general public.

In this scenario, public limited company would be the only choice as it offers greater credibility, greater investor confidence due to higher regulatory compliance with statutory requirement of appointment of chartered Accountant as external auditor and appointment of a legal advisor. It also offers protection from tax liability of the company to directors and shareholders. It can also apply for listing and raise funds through general public afterwards.

TRANSITION FROM ONE BUSINESS STRUCTURE TO ANOTHER

Transitioning from one business structure to another in Pakistan is a strategic decision that businesses undertake to adapt to changing needs, optimize operations, and enhance their legal and financial framework. This process involves shifting from one recognized legal form, such as a sole proprietorship, partnership, or limited liability company, to another structure that better aligns with the company's objectives.

Reasons for business transitions

By transitioning, businesses can capitalize on opportunities for growth, improve corporate governance, attract investment, and ensure compliance with regulatory requirements. However, navigating this transition requires careful planning, legal expertise, and adherence to the procedural and regulatory framework set forth by the Pakistani government. By undertaking the necessary steps and obtaining professional guidance, businesses can successfully execute a smooth transition to a new business structure and position themselves for continued success in the dynamic Pakistani business landscape.

PROCESS OF TRANSITION FROM ONE BUSINESS TO ANOTHER

Transitioning from one business structure to another in Pakistan typically involves a series of steps and legal procedures. Here's a general overview of the process:

1

Determine the desired business structure: Identify the new business structure that aligns with your goals and needs, such as changing from a sole proprietorship to a private limited company.

2

Obtain professional advice: Consult with legal and financial professionals experienced in Pakistani business laws to understand the specific requirements, implications, and procedures involved in the transition.

3

Approval from Owners/Partners/shareholders: Obtain the approval of the existing shareholders to initiate the transition if you have a company or if you have a partnership, you need to get approval from partners. Depending on the existing structure and the new structure, this may involve convening a meeting and passing a special resolution.

2

Draft necessary documents: The next step is to prepare documentation which depends on the nature and legal structure of your business and the legal business structure you intend to convert to. For example, if you have a partnership and want to convert it to a private limited company, then you need to prepare dissolution deed, Memorandum and articles of association etc.

5

Apply for new registrations and licenses: Register the new business structure with the relevant government authorities. This typically includes registering with the Securities and Exchange Commission of Pakistan (SECP), obtaining a new National Tax Number (NTN), and registering for sales tax or other applicable licenses.

Certain conversions result in the termination of your current legal structure, giving rise to a new entity. In such cases, you are required to obtain all registrations, permits, licenses, etc., for the new entity.

For example, if you decide to transform your sole proprietorship into a Single Member Company, the sole proprietorship ceases to exist, and you must initiate the process of obtaining all necessary registrations anew.

Similarly, the Companies Act of 2017 and the Limited Liability Partnership Act of 2017 include provisions for the conversion of status. In such cases, the legal business structure undergoes a change, but the entity continues to exist, albeit with a modified status.

6

Transfer assets and liabilities: Transfer the assets, liabilities, contracts, permits, and licenses from the old business structure to the new one. This may involve updating agreements with suppliers, customers, and other stakeholders.

7

Compliance requirements: Fulfill any additional compliance requirements specific to the new business structure, such as maintaining statutory records, appointing auditors, and filing annual returns.

8

Inform relevant stakeholders: Notify employees, customers, suppliers, banks, and other relevant parties about the transition. Update contracts, agreements, and other legal documents to reflect the new business structure.

9

Wind up the old business structure: Where applicable (Like in case of Limited liability partnership to Private Limited Company), complete the legal procedures to dissolve or wind up the previous business structure, ensuring all legal obligations, debts, and liabilities are appropriately addressed.

**Good to Know**

The following conversions does not entail cessation of your current legal structure:

- a. Private Limited Company to Single Member Company and vice versa.
- b. Private Limited Company to Public Limited Company and vice versa.
- c. Public Limited Company to Single Member Company and vice versa.
- d. General Partnership to Limited Liability Partnership.
- e. Limited Liability Partnership to Private Limited Company.

**Good to Know**

The following transitions entail termination of your current legal structure:

1. Limited Liability Partnership.to General Partnership/ firm.
2. Sole proprietorship to other legal business structures and vice versa.
3. All types of companies to Limited Liability Partnership.
4. All types of companies to General Partnership.
5. All types of companies to Sole proprietorship.
6. Limited liability Partnership to Sole proprietorship.
7. General Partnership to Sole proprietorship.



It's important to note that the specific process may vary depending on the existing and desired business structures, the nature of the business, and any sector-specific regulations. It is advisable to seek professional advice and consult the relevant government agencies to ensure compliance with all legal requirements during the transition process.

INTERACTIVE ACTIVITY: Participants work through a scenario of choosing the right business structure for their business

Let's work through the scenario of choosing the right business structure for the expansion of the sole proprietorship. Considering the intention to include two more partners, the options to explore are a General Partnership or a Limited Liability Partnership (LLP). Here's an interactive activity to help you make an informed decision:

1. Explore General Partnership:
 - Discuss the advantages and disadvantages of a General Partnership:
 - Advantages:
 - Shared decision-making and expertise from multiple partners.
 - Increased capital infusion with the involvement of new partners.
 - Flexible profit distribution among partners.
 - Disadvantages:
 - Unlimited personal liability for all partners.
 - Each partner is individually responsible for the partnership's debts and obligations.
 - Potential conflicts and disagreements among partners.
2. Explore Limited Liability Partnership (LLP):
 - Discuss the advantages and disadvantages of an LLP:
 - Advantages:
 - Limited liability protection for partners, shielding personal assets from business debts.
 - Flexibility in partnership agreements and profit distribution.
 - Enhanced credibility and professional image.
 - Disadvantages:
 - Compliance with additional regulatory requirements and filing obligations.
 - Potential complexity in forming and maintaining an LLP.
 - Limited availability of certain tax benefits compared to other structures.
3. Explore Private Limited Company (PLC):
 - Discuss the advantages and disadvantages of a PLC:
 - Advantages:
 - Limited liability protection for shareholders, shielding personal assets from business debts.
 - Perpetual Existence
 - Governance structure
 - Enhanced credibility and professional image.
 - Disadvantages:
 - Compliance with additional regulatory requirements and filing obligations.
 - Potential complexity in forming and maintaining a PLC.
 - Taxation of PLC
 - Certain legal requirements e.g. Income tax withholding agent, Sales tax withholding agent etc.
4. Evaluate the specific needs and goals of the business:
 - Discuss the expansion plans, long-term objectives, and individual priorities of each partner.
 - Consider factors such as the desired level of personal liability protection, allocation of decision-making authority, and tax implications.

5. Compare and contrast the General Partnership, LLP and PLC based on the discussions:

- Assess the compatibility of each business structure with the expansion plans and individual partner preferences.
- Consider the risk tolerance, capital contribution, and expertise each partner brings to the table.
- Discuss the impact of liability protection, profit sharing, and governance structure on the business's overall success.

6. Make an informed decision:

- Based on the thorough evaluation, collaboratively decide on the most suitable business structure.
- Consider consulting with legal and financial professionals to ensure compliance with Pakistani laws and regulations.
- Document the decision in a partnership agreement or LLP agreement or Articles of association that outlines the rights, responsibilities, and obligations of each partner/ director/shareholder.

Remember, this interactive activity aims to facilitate discussions and guide you in making a well-informed decision. It is always advisable to seek professional advice tailored to your specific circumstances to ensure compliance and maximize the benefits of the chosen business structure.

MATRIX EVALUATING THE SUITABILITY OF DIFFERENT BUSINESS STRUCTURES INVOLVES CONSIDERATION OF A VARIETY OF FACTORS.

Factors/Structure	Sole Proprietorship	Partnership	LLP (Limited Liability Partnership)	Private Limited Company	Single Member Company	Public Limited Company
Number of Members / Founders	1	2-20	2-20	1-50	1	Not limited
Capital Requirements	Low	Moderate	Moderate to High	Moderate to High	Moderate to High	High
Nature of Business	Small, Personal	Professional, Trade	Professional Services	Varied, Scalable	Varied, Scalable	Large Scale, Public
Taxation	Personal	Partnership	Pass-through	Corporate	Corporate	Corporate
Scalability	Low	Moderate	Moderate to High	High	Moderate to High	Very High
Limited Liability	No	No	Yes	Yes	Yes	Yes
Regulatory Burden	Low	Low	Moderate	High	Moderate to High	Very High
Flexibility in Management	High	Moderate	Moderate	Low	Moderate	Low
Transferability of Ownership	Low	Low	Moderate	High	Moderate	High
Potential for Raising Capital	Low	Low	Moderate	High	Moderate	Very High

- **Sole Proprietorship:** Best for individual entrepreneurs with low capital requirements and a desire for simplicity in taxation and regulatory burden.
- **Partnership:** Suitable for small to medium-sized groups of individuals who want to collaborate on business ventures. Partnerships are characterized by shared management responsibilities, profits, and liabilities. This structure allows for a relatively easy and flexible way to operate a business with more than one owner, making it ideal for professional services, small trade businesses, and startups that do not require significant capital investment upfront. However, partners in a general partnership are jointly and severally liable for the debts and obligations of the business, which can present a significant financial risk. Taxation in a partnership flows through to the individual partners, who report their share of profits and losses on their personal tax returns. This can be beneficial in terms of tax flexibility but requires careful financial management and agreement among partners on the distribution of earnings and liabilities.

- **LLP (Limited Liability Partnership):** Ideal for professionals seeking to limit their personal liability while benefiting from the flexibility of a partnership structure, especially when the business requires more capital than a simple partnership.
- **Private Limited Company:** Suited for entrepreneurs and businesses that aim for scalability and are willing to deal with higher regulatory burdens in exchange for benefits like limited liability, easier capital raising, and a professional business image.
- **Single Member Company:** Designed for individuals who want the benefits of a corporate structure, including limited liability and potential for business growth, while maintaining sole ownership. This structure allows for an easier transition to a more complex structure if needed.
- **Public Limited Company:** Best for large-scale businesses that aim for maximum scalability and publicly trading of shares, requiring significant capital and willing to adhere to the highest level of regulatory scrutiny and transparency.

Each business structure has its own advantages and considerations, and the choice depends on the specific goals, needs, and circumstances of the business and its owners. It's also important to consult with legal and financial professionals to understand the implications of choosing a particular business structure in your jurisdiction, as laws and regulations vary widely by location

CONCLUSION

Throughout this manual, we have explored the various legal forms, advantages, and considerations involved in establishing and transitioning business structures. We have delved into the specifics of sole proprietorships, partnerships, limited liability partnerships (LLPs), and limited companies, understanding their unique features and implications in the Pakistani business landscape. As we wrap up this training, let's recap the key insights gained from this manual.

Key Takeaways from this Training Manual:



Understanding the Importance of Choosing the Right Business Structure: The choice of business structure has significant implications for legal liability, governance, taxation, and growth potential. It is crucial to carefully evaluate the advantages and considerations of each structure to make an informed decision.



Sole Proprietorship: Sole proprietorships offer simplicity and ease of setup but expose the owner to unlimited personal liability. They are suitable for small-scale businesses with minimal risk.



Partnerships: Partnerships allow for shared resources, expertise, and investment among partners. However, partners have joint and several liability, meaning they are individually responsible for the partnership's obligations.



Limited Liability Partnerships (LLPs): LLPs provide partners with limited liability protection while maintaining the flexibility of a partnership. They require compliance with registration and filing requirements and necessitate a well-drafted partnership agreement.



Private Limited Companies: Private limited companies offer the advantage of limited liability for shareholders and a separate legal entity status. They attract investment more easily but come with additional compliance responsibilities, such as annual financial statements and audits.



Transitioning Business Structures: Transitioning from one structure to another requires careful planning, legal guidance, and adherence to regulatory procedures. It involves transferring assets, liabilities, permits, and licenses while fulfilling compliance requirements.

By considering these key takeaways, you are now equipped with valuable knowledge and insights to choose the most suitable business structure for your specific needs and aspirations. Remember to evaluate the level of personal liability, scalability, governance requirements, tax implications, and long-term goals when making your decision.

FUTURE TRENDS AND DEVELOPMENTS IN BUSINESS STRUCTURES IN PAKISTAN

According to estimated data we can provide you with some general insights into potential future trends and developments in business structures in Pakistan. Please note that these trends are based on the prevailing business environment and may evolve over time.



Increased Adoption of Limited Liability Companies: Private limited companies have been a popular choice for businesses in Pakistan due to the limited liability protection they offer. This trend is likely to continue as more entrepreneurs and investors recognize the advantages of separating personal and business assets. But the regulatory landscape is not conducive for formation of limited companies. For example, a private limited company is a withholding agent for income tax and for sales tax without any threshold limits which causes an existential threat to this form of business as other business structures (Sole proprietorships, Partnerships and LLPs) are not withholding agents having turnover not exceeding 100 million.

2

Growth of Startups and Entrepreneurship: Pakistan has witnessed a rise in startups and entrepreneurial ventures across various sectors. As a result, there may be an increase in the demand for business structures that cater specifically to the needs of startups, such as incubators, accelerators, and support programs.

3

Emphasis on Corporate Governance: With an increased focus on transparency, accountability, and compliance, businesses in Pakistan are expected to prioritize strong corporate governance practices. This includes establishing clear management structures, complying with regulatory requirements, and implementing effective internal control mechanisms.

4

Technological Advancements and Digital Transformation: The ongoing digital transformation across industries is likely to impact business structures in Pakistan. Companies may incorporate technology-driven processes, adapt their structures to accommodate remote work arrangements, and explore opportunities in e-commerce and digital services.

5

Evolving Regulatory Landscape: The regulatory environment for businesses in Pakistan is subject to change, driven by government policies and economic developments. It is important for businesses to stay updated with any regulatory reforms or new legislation that may impact business structures and compliance requirements.

6

Embracing Socially Responsible Business Models: There is a growing emphasis on social responsibility and sustainability in business practices. This trend may lead to the emergence of new business structures or modifications to existing structures to facilitate socially responsible initiatives and impact-driven enterprises.



It's crucial to stay informed about the evolving business landscape and consult with legal and financial professionals to assess the latest trends and developments in business structures in Pakistan. By keeping abreast of these changes, you can make informed decisions that align with the dynamic business environment.

ANNEXURES:

Sales Invoice

YOUR LOGO

INVOICE

INVOICE NO.

DATE

CUSTOMER ID

TERMS

BILL TO

SHIP TO

DESCRIPTION

AMOUNT

	-
	-
	-
	-
	-

Remarks / Instructions:

SUBTOTAL

-

DISCOUNT

-

SUBTOTAL LESS
DISCOUNT

-

TAX RATE

-

TOTAL TAX

-

SHIPPING/HANDLING

-

OTHER

-

TOTAL

-

THANK YOU

CASH RECEIPT

Payment Receipt Voucher

PAYMENT RECEIPT			
Company Name:		LOGO	
Address:			
Phone No.:			
Email ID:			
NTN No.:			
Received From:		Date:	
Name:		Receipt No.:	
Address:		Due Date:	
Phone No.:			
Email ID:			
Amount (Received):			
Amount in Words:			
Reason For Payment:			
<u>Account Details:</u>		<u>Payment Mode:</u>	
Total Due Amount:		Cash:	
Total Amount Paid:		Cheque:	
Balance Due:		Money Order:	
Description:		Bank Transfer / RTGS / NEFT /UPI reference number	
		Received By:	
		Name & Signature:	