

# **Legal Requirements for Starting a SME Business in Pakistan**



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## **1 Disclaimer**

This information memorandum is to introduce the subject matter and provide a general idea and information on the said matter. Although, the material included in this document is based on data/information gathered from various reliable sources; however, it is based upon certain assumptions, which may differ from case to case. The information has been provided on as is where is basis without any warranties or assertions as to the correctness or soundness thereof.

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## **2 Introduction to SMEDA**

Small and Medium Enterprises Development Authority (SMEDA) is an apex SME development agency working under the Ministry of Industries and Production (MoI&P), Government of Pakistan. In pursuit of its mission, SMEDA has adopted an integrated strategy that comprises SME sectors & clusters development, Business Development Services (BDS), and Policy advocacy to protect and promote SME interests.

SMEDA offers a broad spectrum of business development services to SMEs which include prefeasibility studies, identification of experts and consultants, delivery of need based capacity building programs in addition to business guidance through help desk services.

## **3 Purpose of the Guide**

This document will guide new entrepreneurs regarding legal requirements for starting a business in Pakistan. This will also help in understanding various registration options and compliance requirements available for SMEs.

#### 4 Why Need Business Registration

Business registration is essential to provide your business a legal cover and to ensure smooth working. Business registration is an important tool to formalize your business in terms of providing an existence to your business. Registration of a business assists an entrepreneur in multiple ways; documenting legal aspects of the business & its owners, assigning identity, facilitating access to formal financing, offering tools & techniques to control legal consequences in case of breach of contract etc. It also provides opportunities to participate in projects sponsored by the government, large private companies and to meet international trade requirements.

#### 5 Types of Business Registration<sup>1</sup>

The most commonly used types of business formation or registration options in Pakistan are:

SOLE PROPRIETORSHIP	PARTNERSHIP FIRM	COMPANY
Registration Under Income Tax Ordinance, 2001	Registration Under Partnership Act, 1932	Registration Under Companies Act, 2017

#### 6 Selection of Type of Business Registration

ASME can choose the type of business registration for his/her business based upon the nature, size and object<sup>2</sup> of business. During the decision making process, the entrepreneur may consider the following:

<b>Nature and size of business</b>	<b>Flexibility of operation</b>
<b>Costs of Registration</b>	<b>Compliance requirements</b>
<b>Tax benefits</b>	<b>Reporting requirements</b>

Mostly, small businesses prefer to register as Sole Proprietorship under Income Tax Ordinance, 2001 or under Partnership Act 1932, whereas, for medium to large sized business, Private Limited Companies are the preferred category to be registered under the Companies Act, 2017. It is also important to know that a business registered as Sole Proprietor or Firm may also be converted into a Private Limited Company as the business moves towards expansion and maturity.

<sup>1</sup> Please refer to SMEDA regulatory procedure on website follow link Home>Facilitation for Doing Business>Information Material>Regulatory Procedures

<sup>2</sup> Object of Business: A term used in Memorandum of Articles to define the purpose of business.

## 7 Comparative Table of Costs and Time Duration

Sr. #	Type of Business Registration	Registering Authority	Estimated Cost of Filing	No. of Days Required	Benefits
1	<b>Sole Proprietorship</b>	Federal Board of Revenue (FBR)	Other than lawyer's fee no cost is associated for applying NTN for sole Proprietorship.	Maximum 7 to 10 days	Easy to register, less time consuming and flexibility to take a decision by the owner as the owner is solely liable to the business.
2	<b>Partnership Firm</b>	Registrar of Firms under District Government	Other than lawyer's fee a challan of Rs. 100 needs to be deposited with National Bank of Pakistan and stamp paper of Rs. 1,000 is required for applying firm registration.	Maximum 10 to 15 days	Easy to register, less time consuming and flexibility to take a decision.
3	<b>Private Limited Company</b>	Securities and Exchange Commission of Pakistan (SECP)	Other than lawyer's fee a challan of Rs. 500 in case of offline or Rs. 200 in case of online is required to be deposited with Muslim Commercial Bank (MCB) for availability of name application with SECP and if it is accepted Rs. 1,000 for online registration of a company whose nominal share capital (amount of capital funded by a company's shareholders) does not exceed Rs. 100,000 and Rs. 2,000 in case of physical submission of documents.	Maximum 15 to 30 days	Owner of the business enjoys limited liability for the business debts i.e. the owner is liable for debts only to the extent of the owner's shares.  Company is an individual & separate legal entity from its owner.

## 8 Business Registration Procedures

The official website of SECP provides online facility for Company registration where as the official website of FBR extends online registration facility for Sole Proprietorship. Online registration facility for Partnership / Firm is not available as of date. SMEDA provides general guidance regarding procedures for business registrations. A brief description is as follows:

Sr. #	Type of Business	Registration	Comment
1.	Sole Proprietorship	Online	Only NTN is required for sole proprietorship; NTN Registration is available online.
2.	Partnership Firm	Offline	Requires physical submission of documents, and cannot be done online.
3.	Private Limited Company	Offline/Online	Company Registration can be done online as well as registration documents can be submit in hard form at SECP offices.

### 8.1 Sole Proprietorship

Sole proprietorship is not considered to be a formal way of doing business in Pakistan and has no stated business registration procedure. A Sole Proprietor is defined as;

“A type of enterprise that is owned and run by one natural person and in which there is no legal distinction between the owner and the business entity. The owner is in direct control of all elements and is legally accountable for the finances of such business and this may include debts, loans, loss, etc. The sole trader receives all profits (subject to taxation specific to the business) and has unlimited responsibility for all losses and debts”.<sup>3</sup>

In Pakistan, Income Tax Ordinance handles taxation related issues for Sole Proprietorship. A person can request for stating his/her business name in the NTN certificate. By doing so, the person will be liable for personal and business tax under the same NTN and the entrepreneur’s status will be as individual. The procedure for NTN registration is provided in section “9.1 National Tax Number”.

### 8.2 Firm Registration

Two or more partners can register themselves as a firm under Partnership Act 1932. Application forms can be acquired from the Registration Section of Registrar of Firms of District Government. Partnership deed shall be made on judicial papers worth Rs.1,000 on

<sup>3</sup> The above definition is according to the Small Business Encyclopedia

<https://www.entrepreneur.com/encyclopedia/sole-proprietorship>

behalf of the firm, which shall be signed by all partners and witnesses accordingly, mentioning their complete particulars therein. A Challan form of Rs.100 submitted in National Bank of Pakistan shall be attached with the application form.

FLOW CHART OF PARTNERSHIP FIRM REGISTRATION	
<b>STEP 1</b>	Drafting of partnership deed on a stamp paper of Rs. 1,000 duly signed and stamped by Oath Commissioner and Notary Public
<b>STEP 2</b>	Payment of challan of Rs. 100 to National Bank of Pakistan (NBP)
<b>STEP 3</b>	Preparation of Form – 1: Form – 1: Declaration of name of firm, office address, particulars of partners and 2 witnesses
<b>STEP 4</b>	Submission of Form-1 along with a copy of partnership deed and original receipt of challan to the office of District Registrar of firms
<b>STEP 5</b>	Issuance of Certificate of registration of firm

### 8.3 Company Registration

Securities and Exchange Commission of Pakistan is the only authority that provides services for registration of companies in Pakistan under Companies Act 2017. Company registration office charges fees for registration in Pakistan. A company may be registered online or manually, and the fee structure<sup>4</sup> is subject to differ. For example, fees of Rs. 1,000 is charged for online registration of a company with nominal share capital not exceeding Rs. 100,000 and Rs. 2,000 registration charges are levied in case of physical submission of documents. The following flow chart describes company registration procedure:

FLOW CHART OF PRIVATE LIMITED COMPANY	
<b>STEP 1</b>	Filing of application on plain paper for availability of name to the registrar of companies of SECP. Receipt of challan of Rs. 500 deposited in MCB or Rs. 200 in case of online submission of application for each name.
<b>STEP 2</b>	Upon receiving the certificate of availability of name, 4 copies of Memorandum of Association and 4 copies of Article of Association to be submitted to SECP within 90 days from the date of issuance of Certificate of Availability of Name along with filled application forms.

<sup>4</sup><https://www.secp.gov.pk/company-formation/fee-calculator/company-incorporation-fee-calculator/>

<b>STEP 3</b>	Submission of Forms: <b>Form – 1:</b> Declaration of applicant for compliance <b>Form – 21:</b> Notice of situation of registered office of the company <b>Form – 29:</b> Particulars of first directors of the company (CNIC or passport in case of foreigner etc.)
<b>STEP 4</b>	Original receipt of challan of Rs. 2,000 (in case of online submission Rs. 1,000) deposited in MCB must be attached with the above mentioned documents need to be submitted with the registrar of Companies of SECP within 90 days from the date of issuance of certificate of availability of name.
<b>STEP 5</b>	Issuance of Certificate of Incorporation by the registrar of Companies



## 9 Compliance Needs\Licensing

You might need to apply for certain licenses at the start of your business subject to the nature of your business you are in. The most common licenses needed to apply for are:

Sr. #	Name of Document	Name of Issuing Authority	Federal/ Provincial	Sector Specification
1.	National Tax Number	Federal Board of Revenue (FBR)	Federal	<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Trading</li> <li>• Services</li> </ul>
2.	Sales Tax Number	Federal Board of Revenue (FBR)	Federal	<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Trading</li> <li>• Services</li> </ul>
3.	Intellectual Property Rights (Trade Mark, copy right, patent etc.)	Intellectual Property Rights Organization of Pakistan (IPO-Pakistan)	Federal	<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Trading</li> <li>• Services</li> </ul>
4.	Professional tax with Excise and Taxation Office	Excise and Taxation Officer (ETO)	Provincial	<ul style="list-style-type: none"> <li>• Services</li> </ul>
5.	Employees Social Security Institution	Provincial Social Security Institution	Provincial	<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Trading</li> <li>• Services</li> </ul>
6.	Employees Old Age Benefits Institution	Employees Old Age Benefits Institution of Government of Pakistan (EOBI)	Federal	<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Trading</li> <li>• Services</li> </ul>

### 9.1 National Tax Number

A person may register for income tax by applying for a National Tax Number (NTN) at the Tax Facilitation Center of the Regional Tax Office (RTO) of the Federal Board of Revenue (FBR). Online facility of filling NTN application is also provided by FBR on its official website. According to the Income Tax Ordinance, 2001, every business must register for income tax and obtain NTN. Other regulatory / trade authorities such as Chambers of Commerce and trade bodies, Utility Authorities, etc. also require NTN in their forms for application.

To apply, the company/firm must submit a one-page form (the NTN Form) as well as Proof of Registration, the Memorandum and Articles of Association, Bank Account number, copies of the Computerized National Identity Cards of its directors, and an attestation of the

registered business address at the nearest tax facilitation counter of the Regional Tax Office in Pakistan.

All applications are forwarded to the Central Registration Office (CRO) in Islamabad, which allots a number, known as NTN to each company/firm. The Center processes the application and issues the NTN at no cost. The certificate is sent to the registered address of the applicant. The company/firm can track the application online or through RTO helpline. If undelivered, the NTN certificate can be collected from the specified office at the Federal Board of Revenue. The Income Tax is paid on filing the Tax Return, which is due within 6 months at the end of the company's financial year (usually on June 30).

Reforms have been introduced to make the tax registration fully electronic and user friendly. Since 2002, after the introduction of the Income Tax Ordinance, 2001, an NTN is issued with a continuous valid term, i.e. there is no need to renew the number. Further, no cost is associated with registration of NTN unless one employs the services of a lawyer.

## **9.2 Sales Tax**

Register for sales tax by applying for a Sales Tax Number (STN) at the Tax Facilitation Center of the Regional Tax Office (RTO) of the Federal Board of Revenue (FBR). According to Sections 14, 15, and 16 of the Sales Tax Act, 1990 and Sales Tax Rules, 2006, the company must register for sales tax by submitting an application using Form STR-1 at any tax facilitation counter at the nearest Regional Tax Office (RTO). The local RTO forwards all applications to the Central Registration Office (CRO). After verification, the CRO issues a Registration Certificate bearing the registration number and mails the same to the registered company, on a prescribed form (Form STR -5). Further, No cost is associated with sales tax registration unless one employs the services of a lawyer.

## **9.3 Intellectual Property Rights (IPR)**

Intellectual Property Rights are governed by IPO-Pakistan, which is the only authority of Pakistan to issue Trademarks, Copyrights and Patents etc. Intellectual Property Rights are not mandatory in nature but for fair competition in the international market and securing products / services it is mandatory because it is one of the main requirements stated under World Trade Organization (WTO) regime.

Registration fee for IPRs are as follows: Trademark Rs. 2,000, Copyright Rs. 1,000, Industrial design Rs. 2,000 and Patent Rs. 2,000. The website of IPO – Pakistan provides details of registration fee and procedure. Please visit SMEDA's official website for a detailed description of the procedure for IPR registration.

## **9.4 Professional Tax with Excise and Taxation**

Following the Devolution Plan, 2001, a Professional Tax is enforced at the district level by the Excise and Taxation Department of the relevant District. According to the Punjab Finance Act, 1977, the tax is levied upon businesses, professionals, traders, callings, or companies employing such professionals. The district Excise and Taxation Officer (ETO) is empowered to enroll every person engaged in any such business or profession and thereafter, give notice to said enrolled person.

In case of a new business, the business is required to ask the ETO to enroll by submitting a simple assessment form. The ETO issues a Demand Number (Registration Number) that acts as a reference number for the registered company and is noted down on every bank challan when assessments are paid into the bank. No cost is involved for registration unless one employs the services of a lawyer.

### **9.5 Employees Social Security Institution**

Registration with the Employees Social Security Institution is governed at the provincial level. Employers covered under the scheme contribute 6% of the wages to insurable workers. The Federal and Provincial Governments specify minimum wage rates in yearly budgets. Employee Social Security is applicable on employees that fall below minimum wages. The company must submit a form in order to be allotted a registration number and to receive employee card. Registration with Employees Social Security Institution is compulsory; however, no costs are involved during the process of registration unless one employs the services of a lawyer.

### **9.6 Employees Old Age Benefits Institution (EOBI)**

As per amendment to EOBI Act, 1976, effective July 2008, every industry or commercial establishment with 5 or more employees must be registered with the Federal EOBI. Under the EOBI, insured employees are entitled to a pension (upon retirement), disability (if permanently disabled), old-age grant (upon retirement if they do not have the minimum threshold for a pension), and survivor's pension. These funds are accumulated by the company through a contribution equal to 5% of minimum wages is paid by the employer and 1% by the employee.

For initial registration, the company must submit forms for registration; PR-I Form for employer and PE-I Form for employee. The allotment requests are sent to a center in Karachi that issues the Registration Numbers along with certificates and cards and sends them to the company. No cost is required for the enlistment of business with Employees Old Age Benefits Institution unless one employs the services of a lawyer.

### **9.7 Specialized Licensing Requirements**

When a business falls under food, agriculture, entertainment, services (such as allopathic medicinal services), etc. additional licensing requirements may need to be fulfilled, some of which are stated as below:

Sr. #	Name of Document	Name of Issuing Authority	Federal/ Provincial	Applicability
1.	Certificate of environment protection	<ul style="list-style-type: none"> <li>• Pakistan Environmental Protection Agency (PAK-EPA)</li> <li>• Provincial Environmental Protection Agencies / Department (incl. AJK and Gilgit Baltistan)</li> <li>• Departments Forest Environment &amp; Wildlife, Sindh</li> </ul>	Federal and Provincial	<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Trading</li> <li>• Services</li> </ul>
2.	Council Permits and certificates from concerning professional body (if any) etc.	<ul style="list-style-type: none"> <li>• Pakistan Medical and Dental Council. (PMDC)</li> <li>• The Pakistan Council of Architects and Town Planners</li> <li>• Pakistan Engineering Council (PEC)</li> <li>• National Council for Tib</li> <li>• National Council for Homeopathy</li> <li>• Pakistan Veterinary Medical Council</li> <li>• Bar Councils</li> </ul>	Federal and Provincial	<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Trading</li> <li>• Services</li> </ul>
3.	Food license, wheat and sugar quota and halal food certificate	<ul style="list-style-type: none"> <li>• Provincial Environmental Protection Agencies / Department (Punjab, Sindh, KPK, Baluchistan)</li> </ul>	Provincial	<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Trading</li> <li>• Services</li> </ul>
4.	CNG Station, LPG auto refueling stations	<ul style="list-style-type: none"> <li>• Oil &amp; Gas Regulatory Authority (OGRA)</li> </ul>	Federal	<ul style="list-style-type: none"> <li>• Services</li> </ul>