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Taxes for Foreign Companies in Pakistan: Corporate, Withholding and Sales Tax in 2026-27

Corporate, super and minimum tax, withholding on payments abroad, sales tax, treaties, incentives and compliance for foreign companies in Pakistan.

Pakistan Market Guide

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Foreign companies planning to operate in Pakistan usually ask the same question early: what will the tax cost be? The answer depends on the legal form, the kind of income, the treaty position and the compliance record. A branch and a subsidiary can pay the same headline corporate rate but face different withholding, repatriation and permanent-establishment questions. A company that only sells to Pakistan from abroad may have no Pakistan tax at all, while a company with a project office, employees or a dependent agent can create a taxable presence without incorporating.

This guide sets out the main federal taxes for foreign companies after the Finance Act 2026, which applies for the 2026-27 fiscal year: corporate income tax, super tax, minimum and alternate corporate tax, withholding on payments abroad, sales tax on goods and services, treaty relief, incentives and the compliance that follows. It is an orientation based on official and professional sources, not legal or tax advice. Rates and thresholds change with each Finance Act; confirm the current position with the FBR and a qualified adviser before committing.

1. Residence, source and permanent establishment

Pakistan taxes residents on worldwide income and non-residents on Pakistan-source income. A company incorporated in Pakistan is a resident. A foreign company is generally a non-resident, but it can be taxed on Pakistan-source income through a branch, a permanent establishment or a withholding on payments made to it.

The Income Tax Ordinance, 2001 defines a permanent establishment by reference to a fixed place of business, a construction or installation project of sufficient duration, a dependent agent, and the furnishing of services through employees or other personnel. A branch registered with SECP is a permanent establishment. A project office, a site, a warehouse or an employee who habitually concludes contracts can also create one, depending on the facts and the treaty.

The treaty may narrow the domestic definition. Pakistan has treaties with many countries, and most follow the OECD or UN model. The treaty does not exempt the income automatically; it allocates taxing rights and may reduce withholding. The first planning question is therefore not the corporate rate but whether the activity creates a taxable presence, and in which country.

2. Corporate income tax

Companies in Pakistan pay federal income tax on taxable income at these rates (PwC Worldwide Tax Summaries, Pakistan):

Type of company	Rate
Banking company	39%
Public company (other than banking), and any other company	29%
Small company (conditions apply)	20%

A foreign company operating through a branch or other permanent establishment is taxed on the Pakistan-source income attributable to that establishment at the same company rates. A locally incorporated subsidiary is taxed as a Pakistani company on its income. The branch must also consider the tax treatment of the head office's expenses, the attribution of profits and any treaty rule on business profits.

Taxable income is accounting profit adjusted for tax. Deductions are allowed for expenses incurred wholly and exclusively for the business, subject to specific limits. Depreciation is allowed at prescribed rates; certain intangibles, provisions and related-party payments have their own rules. Losses can generally be carried forward, subject to continuity of ownership and other conditions. A tax adviser should build the computation from the audited accounts rather than from the headline rate.

3. Super tax

A super tax applies on top of the corporate rate above set income levels. The Finance Act 2026 changed it. According to the Federal Board of Revenue, super tax was abolished for persons with income up to PKR 500 million, and the rate was reduced from 10% to 8% for income above PKR 500 million. The concessions do not apply to banking, fertiliser and certain other specified sectors (FBR, Salient Features of Budget 2026-27).

Banking companies, fertiliser sellers and income computed under Part 1 of the Fifth Schedule continue to pay 10% above PKR 150 million (PwC, as above). Super tax also does not apply where export proceeds exceed 80% of total turnover (PwC, significant developments). The thresholds and exclusions are fact-specific; a company near a boundary should model the super tax, not assume the headline corporate rate is the final rate.

4. Minimum tax and alternate corporate tax

Where the tax payable is lower than a percentage of turnover, minimum tax on turnover applies. The general rate is 1.25% of turnover, and certain sectors pay 0.25% to 0.75%. There is also an Alternate Corporate Tax of 17% of accounting income, which does not apply to insurance companies, petroleum exploration and production companies, banking companies, or companies with reduced rates (PwC, as above).

For a permanent establishment of a non-resident company, minimum tax on gross consideration is 5% for the sale of goods, 15% for services, 8% for contract execution, 8% for specified services and 4% for IT and IT-enabled services. These rates double for taxpayers on the inactive list (PwC, as above). Minimum tax is not a final tax in every case; the interaction with the normal tax and the available credits should be checked.

5. Withholding tax on payments abroad

When a Pakistani company pays a foreign company, tax is generally withheld at source. For non-resident corporations that are not covered by a treaty, the rates are (PwC, withholding taxes):

Payment	Rate without a treaty
Dividends	15%
Interest	10%
Royalties	15%
Fees for technical services	5% to 20%

Pakistan has double taxation treaties with many countries, and the treaty rate may be lower than the domestic rate. Where the treaty rate is higher than the domestic rate, the payer may apply the domestic

rate. Which rate applies depends on the investor's country of residence and the beneficial ownership of the recipient, so this is one of the first questions to settle before choosing a structure.

The payer must withhold, deposit the tax and file the withholding statement. The non-resident needs a Tax Residency Certificate and the prescribed form to claim a treaty rate. A payment that is really a dividend but is labelled a fee, royalty or loan can be recharacterised, with penalties and interest. Our repatriation guide covers the bank side of the same transaction.

6. Sales tax on goods and services

Sales tax, Pakistan's value added tax, is ordinarily levied at 18% on the value of goods. Sales tax on services is levied by the provinces, the Islamabad Capital Territory and Azad Jammu and Kashmir, at rates from 15% to 16% (PwC, other taxes). Some goods and services are exempt or taxed at reduced rates.

A company that supplies taxable goods or services must register, charge and collect the tax, and file periodic returns. Registered businesses can claim input tax on eligible purchases, subject to the invoice and record rules. A foreign company with a Pakistan permanent establishment should register for sales tax where its activity requires it; a company selling remotely without a local presence may still face registration or withholding depending on the nature of the supply.

The 2026-27 budget extended the sales tax exemption on imports of completely knocked down kits for electric vehicles to 30 June 2027 (FBR, as above). Sales tax is not the same as customs duty; the import guide covers the customs side.

7. Treaties and structure

A treaty can reduce withholding on dividends, interest, royalties and technical fees, and can allocate business profits to the residence country unless there is a permanent establishment. The benefit is not automatic. The recipient must be a resident of the treaty country, meet the beneficial ownership and limitation-on-benefits conditions, and provide the Tax Residency Certificate and prescribed form.

The choice between a branch and a subsidiary affects the treaty and the repatriation route. A branch's profits are taxed in Pakistan and remitted after tax; a subsidiary pays corporate tax and then withholds on dividends. A holding company in a treaty jurisdiction may reduce the dividend withholding, but the structure must have substance and commercial purpose. A treaty-shopping arrangement without substance can be challenged.

Transfer pricing is part of the same question. Related-party payments for goods, services, royalties, interest and management fees must be at arm's length and supported by documentation. Pakistan's transfer pricing rules follow the OECD approach, and the tax authority can adjust an excessive payment. A company that pays a group fee without a benchmark, contract or evidence of service is exposed on both tax and exchange-control grounds.

8. Incentives and special regimes

Pakistan offers concessions for exporters, IT and IT-enabled services, special economic zones, and certain priority sectors. The Finance Act 2026 continued the 0.25% rate for IT and IT-enabled services exporters registered with the Pakistan Software Export Board up to Tax Year 2029, and a certified start-up can receive a 100% tax credit for the certification year and the next two tax years (PwC, tax credits and incentives).

Exporters also benefited from the consolidation of the 1% withholding tax and 1% advance tax into a single 1.25% minimum tax. Special economic zone enterprises may qualify for a tax holiday and other concessions under the SEZ Act and zone rules, but the conditions are specific to the zone, the developer and the enterprise. A concession is not available merely because the business is in a priority sector; the registration, location and activity must fit.

9. Compliance, audits and penalties

A company must obtain a National Tax Number, file an annual income tax return, file withholding statements, register for sales tax where required, and file sales tax returns. Companies must also file financial statements in machine-readable electronic formats, and the 2026-27 budget introduced a National Faceless Centre for audits, assessments and appeals and an algorithmic settlement mechanism (FBR, as above).

Late filing, non-filing and default surcharge attract penalties and interest. A company on the inactive taxpayer list faces doubled minimum tax rates and other restrictions. The tax authority can audit, issue a show-cause notice and amend an assessment; the response should be document-based, with the accounts, contracts, transfer pricing file and withholding records. A voluntary correction before an audit is usually cheaper than a dispute after it.

10. What the Finance Act 2026 changed

- **Super tax:** abolished up to PKR 500 million of income, and cut from 10% to 8% above that, outside the excluded sectors.
- **Exports:** a single 1.25% minimum tax replaced the 1% withholding tax and the separate 1% advance tax; the 0.25% rate for IT exporters was extended to Tax Year 2029.
- **Digital compliance:** a tax credit of 10% of the amount invested in electronic resources for integration with FBR systems, and a reduction in the expense disallowance for non-integration from 8% to 3% of total expenditure claimed (PwC, significant developments).
- **Non-resident investors:** concessions for foreign currency value accounts and non-resident rupee value accounts, previously limited to individuals, were extended to non-resident associations of persons and corporate investors. Withholding tax on capital gains from disposing of debt securities rose from 15% to 20%, excluding securities settled through the National Clearing Company on a registered stock exchange (PwC, significant developments).
- **Administration:** the National Faceless Centre, algorithmic settlement and machine-readable financial statements.

11. Common mistakes

1. **Assuming the corporate rate is the total tax.** Super tax, minimum tax and surcharge can add to the bill.
2. **Ignoring permanent establishment.** A project office or dependent agent can create a taxable presence.
3. **Applying a treaty rate without the certificate.** The payer must have the Tax Residency Certificate and prescribed form.
4. **Labelling a dividend as a fee or loan.** Substance over form applies, with penalties and interest.
5. **No transfer pricing file.** Related-party fees and royalties are a standard audit target.
6. **Missing sales tax registration.** The obligation can arise before the first local invoice.
7. **Filing late or not at all.** Inactive-list status doubles minimum tax and restricts approvals.
8. **Assuming an SEZ or export incentive is automatic.** Registration, location and activity conditions apply.

12. Questions to settle before you commit

- Will the business be a locally incorporated company or a branch, and does the activity create a permanent establishment?
- Which treaty applies, and does it reduce withholding on dividends, interest, royalties and fees?
- Does the activity qualify for a sector rate, an export rate, an SEZ holiday or an IT incentive?
- How will profits be paid out, and what is withheld along the way?
- Are related-party payments at arm's length and documented?
- Who will file the income tax, sales tax and withholding returns, and on what calendar?

13. How PIVRA can help

PIVRA can map the tax and regulatory conditions that apply to your investment. Our investment due diligence and market entry roadmaps set them out for your sector and structure from official sources, and expert consultations connect you with Pakistani specialists. We work alongside your tax advisers. Request a quote.

Sources

All sources accessed 24 October 2026. Rates and thresholds are for the 2026-27 fiscal year and should be confirmed against the Finance Act and current FBR notifications.

Federal Board of Revenue, Salient Features of Budget 2026-27.

PwC Worldwide Tax Summaries, Pakistan: taxes on corporate income, last reviewed 24 August 2026.

PwC, Pakistan: withholding taxes.

PwC, Pakistan: other taxes.

PwC, Pakistan: significant developments.

PwC, Pakistan: tax credits and incentives.

Income Tax Ordinance, 2001, including the permanent establishment, transfer pricing, minimum tax and withholding provisions.

Sales Tax Act, 1990, and provincial sales tax on services laws.

Special Economic Zones Act, 2012, and zone rules.

Questions and answers

What is the corporate income tax rate for a foreign company in Pakistan?

A non-resident company with a branch or permanent establishment is taxed on Pakistan-source income at company rates: 29% for most companies, 39% for banking companies and 20% for qualifying small companies. A super tax can apply in addition.

Is super tax still charged after the Finance Act 2026?

Super tax was abolished for income up to PKR 500 million and cut from 10% to 8% above that, outside banking, fertiliser and other specified sectors. Those sectors continue at 10% above PKR 150 million.

What withholding tax applies when a Pakistani company pays a foreign company?

Without a treaty, the listed rates are 15% on dividends, 10% on interest, 15% on royalties and 5% to 20% on fees for technical services. A treaty may reduce the rate if the recipient provides a Tax Residency Certificate and the prescribed form.

What is the sales tax rate in Pakistan?

The standard rate on goods is 18%. Sales tax on services is levied by the provinces, the Islamabad Capital Territory and Azad Jammu and Kashmir at 15% to 16%. Some goods and services are exempt or taxed at reduced rates.

When does a foreign company create a permanent establishment?

A fixed place of business, a construction or installation project of sufficient duration, a dependent agent or the furnishing of services through employees can create a permanent establishment. A registered branch is one; a project office can be one depending on the facts and the treaty.

What is minimum tax and when does it apply?

Minimum tax applies where normal tax is lower than a percentage of turnover. The general rate is 1.25%, with lower sector rates. A permanent establishment of a non-resident can face 5% on goods, 15% on services and 8% on contract execution, with specified exceptions.

What is alternate corporate tax?

Alternate corporate tax is 17% of accounting income. It does not apply to insurance companies, petroleum exploration and production companies, banking companies or companies with reduced rates.

Can a treaty reduce the tax on dividends, royalties and fees?

Yes, if the recipient is a resident of the treaty country, meets the beneficial ownership and limitation-on-benefits conditions, and provides the Tax Residency Certificate and prescribed form. The rate depends on the treaty.

Do related-party payments need transfer pricing documentation?

Yes. Payments for goods, services, royalties, interest and management fees between related parties must be at arm's length and supported by contracts, benchmarks and a transfer pricing file. The tax authority can adjust an excessive payment.

What incentives are available?

Exporters, IT and IT-enabled services exporters, special economic zone enterprises and certified start-ups can qualify for concessions, subject to registration, location, activity and other conditions. An incentive is not automatic.

What compliance filings apply?

A company needs a National Tax Number, files an annual income tax return, withholding statements and, where registered, sales tax returns. Companies also file machine-readable financial statements. Late filing attracts penalties and default surcharge.

What changed in the Finance Act 2026?

Super tax relief, a single 1.25% export minimum tax, the 0.25% IT export rate extended to Tax Year 2029, digital compliance credits, treaty concessions extended to non-resident corporate investors, a higher withholding rate on certain debt securities and a National Faceless Centre.