

2026

LABOUR LAWS

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CHARTERED ACCOUNTANTS

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1. Gratuity & Provident Fund

1.1-Types of Benefits

(i) Gratuity

- Sum of money paid to an employee at the end of a period of employment
- Post-employment benefit
- Defined benefit plan
- Approved/Unapproved Gratuity Fund

(ii) Provident Fund

- An investment fund contributed by employees and employers out of which a lump sum is provided to each employee on retirement
- Post-employment benefit
- Defined contribution plan
- Recognized/Unrecognized/Statutory P.F.

1.2-Governing Laws

- i- The Industrial and Commercial Establishments (Standing Orders) Ordinance, 1968 (applicable in ICT and Baluchistan)
- ii- The Khyber Pakhtunkhwa Industrial and Commercial Employment (Standing Orders) Act, 2013
- iii- The Sindh Terms of Employment (Standing Orders) Act, 2015
- iv- The Industrial and Commercial Employment (Standing Orders) Ordinance, 1968 (adapted by the province of Punjab)

Applicability of Law in Punjab

Criteria;

- Industrial Establishment employing at least 50 workmen
- Commercial Establishment employing at least 20 workmen
- Directly or indirectly
- On any day during the preceding 12 months

Exclusion;

- Industrial and Commercial Establishments of Federal/Provincial Government
- If Statutory Rules of Service are Applicable to Such Workmen

1.3 Important Definitions

(i) Industrial Establishment

- Tramway or motor omnibus service
- Dock, wharf or jetty
- Inland steam vessel
- Mine, quarry or oil field
- Manufacturing/assembling plant, etc.
- Labor contractors including sub-contractor, headman or agent
- Factory (in which manufacturing process is carried on)
- Railway
- Construction industry

(ii) Commercial Establishment

- Business of advertising, commission or forwarding
- Clerical department of a factory/industrial/commercial undertaking
- Labor contractor who employs workmen for fulfilling a contract with owner of any commercial/industrial establishment
- Unit of a joint stock company (i.e. other than SMC)
- Insurance/banking company or bank
- Stock Exchange or a brokerage house
- Club, hotel, restaurant
- Cinema or theatre
- Any other establishment notified by the Government for this purpose

(iii) Workman

Any person employed in any industrial or commercial establishment to do any skilled or unskilled, manual or electrical work for hire or reward

(iv) Employer

Owner of industrial/commercial establishment and includes:

- Factory manager
- Government authority or department head (in absence of any Authority)
- Any person responsible to the owner for supervision/control of establishment

(v) Wages (Payment of Wages Act, 1936)

All remuneration capable of being expressed in terms of money (i.e. gross wages), excluding:

- Value of any house accommodation
- Value of supply of light, water, medical attendance or other amenities
- Traveling allowance or the value of any traveling concession
- Allowance for any special expenses entailed on workman by nature of his/her employment
- Irregular & non-contingent payments (e.g. leave encashment)

1.4 Gratuity Provisions

(a) Conditions; [Standing Order 12 –clauses (6), (8) and (9)]

- i- Industrial/ Commercial Establishment
- ii- Number of Workmen i.e. **20** for Com. Est. & **50** for Ind. Est.
- iii- Payable on Retirement, Resignation, Termination or Death
- iv- Not Payable in Case of Misconduct
- v- Completed **1** Year Service

(b) Calculations;

- ❖ Equivalent to **30** Days of Gross Wages
- ❖ Calculated on Basis of:
 - Fixed-rated workman: 30-day wages admissible to workman in the last month of service
 - Piece-rated workman: 30-day wages calculated on the basis of the highest pay drawn by workman during last twelve months
- ❖ For every completed year of service, or any part thereof in excess of Six Months
- ❖ Paid in addition to any other benefit, excluding provident fund or approved pension fund where employer and employee make equal contribution

1.5 Provident Fund Provisions

(a) Conditions;

- i- Industrial/ Commercial Establishment
- ii- Number of Workmen i.e. **20** for Com. Est. & **50** for Ind. Est.
- ii- Payable on Retirement, Resignation, Termination or Death
- iii- Payable Even in Case of Misconduct
- iv- Equal Employer's Contribution i.e. **50%**

(b)Provisions;

- ❖ Contribution of the employer shall not be less than the contribution made by the workman, or else, the employer shall have to pay gratuity
- ❖ No floor condition: No provision in law that requires that amount paid to the workman under provident fund must not be less than the amount of gratuity admissible to such workman (such provision is available in KPK and Sindh Standing Orders Acts)
- ❖ Companies: Section 218 of the Companies Act, 2017 becomes applicable;
Compliance to be made within 15 days to:
- ❖ Deposit contributions in
 - a National Savings Scheme
 - a separate special account in a scheduled bank
- ❖ Invest in
 - Government securities
 - Bonds, redeemable capital, debt securities/instruments issued by a statutory body
 - Units of collective investment schemes registered as notified entities with SECP
 - Listed securities including shares of companies, bonds, redeemable capital, debt securities and equity securities
- ❖ Pay to the trustees, where a trust has been created with respect to provident fund

Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018

- ❖ Applicable to provident funds constituted by **companies**
- ❖ Regulations discuss:
 - Limits for investment
 - Conditions for investment
 - Mandatory submission of financial information of fund (Annexure A)

1.6 Relevant Tax Provisions – Gratuity

Employer Side: Deduction not allowed for contributions to unapproved gratuity fund [section 21, clause (e)]

Employee Side: [clause (13), Part 1, Second Schedule]

Scenario		Taxability
1	1) Government Employees 2) Approved Gratuity Fund	Fully exempt
2	Approved Gratuity Scheme	Exempt up to Rs. 300,000
3	Unapproved Gratuity	Exempt up to Rs. 75,000 or 50% of amount receivable whichever is lower
4	1) Gratuity not received in Pakistan 2) Gratuity received by non-Resident 3) Received by director who is not regular employee 4) Received by a person who has already received a gratuity	Fully taxable

Employer Side: Deduction not allowed for contributions to unrecognized provident fund [section 21, clause (e)]

Employee Side: [Rule 3, Part 1, Sixth Schedule]

	Particulars	Recognized P.F.	Unrecognized P.F.
1	Employee's contribution	Part and parcel of salary; not separately taxed	
2	Employer's contribution	Yearly Exemption Lower of: - Rs. 150,000, or 10% of basic salary. + DA	No exemption
3	Interest credited for the year	Yearly Exemption Lower of: - 16% of accumulated balance, or 1/3 rd of basic salary. + DA	No exemption
4	Payment of accumulated balance (including permanent withdrawals)	Exempt (excess taxable in the year of contribution)	Taxable in the year of receipt

1.7 Applicable Accounting Standards

IAS 19: Employee Benefits (2011)

Section 28: IFRS for SMEs (2015)

Section 15: Employee Benefits Revised AFRS for SSEs

Section 17: Employee Benefits AFRS for MSEs and SSEs

2. Social Security & EOBI Regulatory, Accounting & Tax Aspects

2.1 Key Concepts:

Employee

- Any person employed, whether directly or through any other person for wages or otherwise to do any skilled or unskilled, supervisory, clerical, manual or other work in, or in connection with the affairs of an industry or establishment, under a contract of service or apprenticeship, whether written or oral, expressed or implied but does not include:
 - Persons in the service of the State, including members of the Armed Forces, Police Force and Railway servants;
 - Persons employed in any undertaking under the control of any Defense Organization or Railway Administration;
 - Persons in the service of a local council, a municipal committee, a cantonment board or any other local authority;
 - Any person in the service of his father, mother, wife, son or daughter, or of her husband;
 - Any person employed on wages exceeding the wages determined by the Government

Employer:

- In the case of works executed or undertakings carried on by any contractor or licensee on behalf of the State, the contractor or licensee working for the State and in every other case the owner of the industry, business, undertaking or establishment in which an employee works and includes any agent, manager or representative of the owner

Contribution:

- The sum of money payable to the institution by an employer in respect of an employee, in accordance with the provisions of this Ordinance

Dependent:

- The wife or wives or a needy invalid husband, dependent parents and any unmarried children under the age of twenty-one years dependent upon the secured person. Provided that such age limit shall not apply to unmarried dependent daughters

Disablement:

- A condition caused by an employment injury which, as certified by a medical practitioner authorized for the purpose as provided in the regulations, has permanently reduced or is likely to reduce permanently a secured person's earning capacity and disablement shall be "minor" where the loss of earning capacity is less than 20%, "partial" where the loss of earning capacity ranges from 21% to 60% and "total" where the loss of earning capacity is in excess of 66%.

Domestic Servant:

- Any person working whole-time in connection with the work of any household for any consideration, whether in cash or in kind.

Employment Injury:

- A personal injury to a secured person caused by an accident or by such occupational disease as may be specified in the regulations, arising out of and in the course of his employment

Establishment:

- An organization, whether industrial, commercial, agricultural or otherwise

Industry:

- Any business, trade, undertaking, manufacture or calling of employers and includes any calling, service, employment, handicraft, industrial occupation or avocation of workmen

Wages:

- Remuneration for service paid or payable in cash or in kind to a secured person, not being less than remuneration based on the minimum rates of wage declared under the Minimum Wages Ordinance, 1961, without taking account of deductions for any purpose, under a contract of service or apprenticeship, expressed or implied and shall be deemed to include any dearness allowance or other addition in respect of the cost of living and any payment by the employer to a secured person in respect of any period of authorized leave, illegal lock-out or legal strike; but does not include:
 - Any payment for overtime
 - Any sum paid to the person employed to defray special expenses entailed by the nature of his employment
 - Any gratuity payable on discharge
 - Any sum paid as bonus by the employer

2.1.1 PESSI:

The Punjab Employees Social Security Institution (PESSI), established through the Provincial Employees Social Security Ordinance 1965, is an autonomous body under the Punjab Government. It extends to the whole of the Punjab.

2.1.2 Applicability:

It applies only to such areas, classes of persons, industries or establishments, from such date or dates and about the provision of such benefits as Government may, by notification, specify in this behalf

Every establishment or industry where in five or more workmen employed on wages not exceeding Rs. 40,000 (Increased from Rs. 37,000) per month is required to be registered with Social Security Department.

Payment: The contribution is payable within one month from the date of it becoming due for example the payable contribution for the month of July, 2025 can be paid up to the last day of August, 2025.

Late Payment Surcharge: After the due date an increase @ .50% per day shall be levied up to 90-days; thereafter, it shall become 50% (static) of the principal amount of contribution. The non-payment of contribution is a prosecutable offence and in addition to it the outstanding arrears of contribution along with increase can be recovered as arrears of Land Revenue

Annual Review of Wage Limit, Contributions and Benefits

PESSI law authorizes the government to annually review the wages, contributions and benefits in line with living cost.

Lex Scripta is being reproduced here for reference.

“71. Review and modification of wage limits, contribution and benefits

(1) In January of each year, the Governing Body shall review the wage limits and the rates of contribution and benefits provided under this Ordinance in the light of any changes in wage levels or living costs and shall submit a report thereon together with its recommendations to Government.

(2) Government may, after considering the said report and recommendations, by notification, enhance or reduce the wage limits specified in clause (f) of sub-section (8) of section 2 or the rates of benefits payable under this Ordinance.”

GOVERNMENT OF THE PUNJAB LABOUR & HUMAN RESOURCE DEPARTMENT

Dated: the Lahore, 08th September, 2025

NOTIFICATION

No. SO(L&P) MW/2024.- In exercise of the powers conferred under section 6 of the Punjab Minimum Wages Act 2019 (XXVIII) of 2019) and in supersession of Notification No. SO(L&P)MW/2024, dated 05.09.2024, published in the Punjab Gazette (Extraordinary), dated 06.09.2024 at page .721, Governor of the Punjab, on recommendation of the Minimum Wages Board, is pleased to fix the following minimum rates of wages for adult and adolescents workers employed in all industrial and commercial establishments in the Province, with effect from 01.07.2025:

- (a) Rs. 40,000/- per month (for 26 working days)
- (b) Rs. 1,538.46/- per day (for eight working hours)
- (c) Rs. 192.31/- per hour

2.1.3 Self-Assessment, Contribution & Revision:

- **Contribution;**
 - Employer shall, in respect of every employee, whether employed by him directly or through any other person, pay to the Institution a contribution at the rate of 6%.
 - Provided that no contribution shall be payable on employee's wages as is in excess of 40,000 per month.
 - The employer shall not deduct the above contribution from the employee's wages or otherwise recover any portion of it from the employee, notwithstanding any agreement to the contrary.

- **Revision by Commissioner:**
 - Commissioner can increase the rate of contribution if an employer fails to observe rules of safety or hygiene.
 - However, such increase shall not exceed 20% of the contribution otherwise payable.

- **Self-Assessment Scheme:**
 - An employer who opts for the scheme shall be liable to pay to the Institution a contribution six per cent of the wage limit determined per month per secured employee.
 - Every employee secured under this Ordinance in respect of whom the employer pays contribution shall be liable to pay through the employer an amount of Rs. 40 per month as his share to the Institution.

Benefits to Workers / Employees:

(i) Sickness Benefit:

- When a secured person is incapable of attending his work on account of sickness, he is entitled to receive cash sickness benefits. His respective contributions must be paid for at least 90 days during six calendar months preceding the date on which his incapacity of work was certified. Sickness benefits shall be allowed throughout the period of sickness due to tuberculosis or cancer. In any other case, it will be limited to 120 days during a continuous period of 365 days.

(ii) Maternity benefit:

- A secured woman shall receive maternity benefit if contributions in respect of her were paid or payable for not less than one hundred and eighty days during the twelve calendar months immediately preceding the expected date of her confinement.

(iii) Funeral Grant:

- A person receiving or entitled to receive injury or sickness benefit, or medical care at the time of his death, the surviving widow, widows or needy widower, or if there is no surviving widow, widows or needy widower, the person who provided for the funeral, shall, subject to regulations, be entitled to such funeral grant as may be provided in the regulations.

(iv) Medical care of dependents:

- Where a secured person dies other than due to any employment injury, his dependents shall be entitled to medical care for one year from the date of death of the secured person

(v) Injury benefits:

- A secured person shall be entitled to receive injury benefit in respect of any day including the day on which, as a result of an employment injury, he is incapable of work, but for not more than one hundred and eighty days.

(vi) Disablement pension:

- A secured person who sustains total or partial disablement shall, upon the expiration of his entitlement to injury benefit, to receive disablement pension, according to the degree of disablement determined from time to time. Disablement pension shall terminate with the death of the recipient or when disablement ceases or ceases to be total or partial disablement. Provided that if a disablement pension has been paid for five years it shall be payable for life.

(vii) Disablement gratuity:

- A secured person who sustains minor disablement shall, subject to regulations, be entitled to a disablement gratuity at such rates for different degrees of disablement as may be fixed by Government by notification, in consultation with the Institution.

(viii) Survivor's Pension:

- Where a secured person dies as a result of an employment injury, a survivor's pension shall be payable to each of his dependents with following conditions:
 - (a)- To the widow, or needy widower, during life, at a rate equal to 1/5th of entitled disablement pension. If there are two or more widows, the pension shall be divided equally.
 - (b)- To each dependent child, at a rate equal to 1/5th disablement pension: if the child is a full orphan, the rate shall be 2/5th.

(ix) Death Grant:

- Where a secured person dies while he is in receipt of injury benefit or of a total disablement pension the widow, widows or needy widowers, or, if there is no widow or needy widower, the person who provided for the funeral, shall, subject to regulations, be entitled to a death grant equal to the daily rate of

the injury benefit or of the total disablement pension, as the case may be, multiplied by thirty, but in no case less than Rs. 1,500.

(x) Medical Care in the case of employment injury:

- When medical care is required as a result of an employment injury no conditions as regard payment of contributions shall apply.
- A person in receipt of injury benefit, disablement pension for loss of earning capacity not less than fifty per centum of a survivor's pension shall be entitled to medical care for so long as the injury benefit, disablement pension or survivor's pension, as the case may be, continues and, in the case of a disablement pension being received by the secured person, for six months after the termination of the pension

(xi) Extent of Medical Care:

- General practitioner care, including domicile visiting
- Specialist care in hospitals for in-patients and out-patients and such specialist care as may be available outside hospitals
- Essential pharmaceutical supplies as prescribed by a medical practitioner
- Hospitalization where necessary, including cases of pregnancy and confinement
- Pre-natal confinement and post-natal care, either by medical practitioners or by qualified midwives
- Dental Care

2.2 Employees Old Age Benefit Institution

2.2.1 Applicability;

It's applicable to every industry or establishment where **Five or more persons** (1979 to 2005, 10 employees; 2006 to 2008, 20 employees) are employed, directly or indirectly, during the year or were so employed, at any time, during the preceding Twelve months.

Once the law becomes applicable to an industry or establishment, provisions of this Act shall continue to apply to every such entity even after the reduction of number of persons employed.

Voluntary Registration:

Any industry or establishment can voluntarily apply for application of this Act, wherein, less than five persons are employed.

Universal Coverage:

EOB Scheme over the years has covered every person working in the organizations registered with it irrespective of the wages/salaries/designation etc.

2.2.2 Key Concepts:

Benefits

- Means old-age pension, invalidity pension, survivor's pension, old-age grant and such other payments as may be determined by the Federal Government from time to time

Contribution

- The sum of money payable to the Institution by the employer or by the Federal Government in respect of an insured person under the provisions of the Act.

Employee

- Any person employed, whether directly or through any other person, for wages or otherwise, **to do** any skilled or unskilled, supervisory, clerical, manual or other work in, or **in connection with the affairs of**, an industry or establishment, under a contract of service or apprenticeship, whether written or oral, express or implied and includes such person when laid off.
- Provided that a director of a limited company or of a corporation set up under any law shall not be treated as an employee under this Act, irrespective of his wages or emoluments

Employer

- In relation to an industry or establishment, mean any employee ("er") and includes-
 - (i) In the case of an individual, an heir, successor, administrator or assign.

(ii) A person who has ultimate control over the affairs of an industry or establishment, or where the affairs of an industry or establishment are entrusted to any other person.

Employment injury

- A personal injury to an insured person caused by an accident, or by an occupational disease, arising out of and in the course of his employment.

Industry

- Any business, trade, undertaking, manufacture or calling of employers and includes any calling, service, employment, handicraft industrial occupation or avocation of workmen.

Establishment

- An establishment to which the West of Pakistan and Establishments Ordinance, 1969 applies and includes clubs, hostels, organizations and messes not maintained for profit or gain and establishment, including hospitals, for the treatment or care of sick, infirm, destitute or mentally unfit persons.
- A construction industry as defined in the West Pakistan Industrial and Commercial Employment (Standing Orders) Ordinance, 1968.
- A factory as defined in the Factories Act, 1934.
- A mine as defined in the Mines Act, 1923.
- A road transport service as defined in the Road Transport Workers Ordinance, 1961
- Any class of industries or establishments which the Federal Government may, by notification in the official Gazette, declare to be establishments for the purposes of this Act.

2.2.3 Contribution Criteria & Rates:

Contribution is payable by every registered employer to the institution on a monthly basis. It is payable in respect of every insured person.

No contribution is payable in respect of person who has:

- 1) Attained the age of 60 years (55 for women).
- 2) Started to receive old age pension from the institution.

Contribution is computed on minimum wages i.e., Rest. 40,000 for every employee, even if he is receiving any sum above than this amount.

Where an employee has not received any wages from the employer for a specific period, institution shall determine the amount of minimum wages for computation of contribution.

Contribution @ 6% of the Minimum Wages i.e., Rest. 40,000

- **5% Employers' Contribution**
- **1% Employees' Contribution**

2.2.4 Registration of Employer and Employees:

Form PR-01- After applicability of EOB Act on an industry or establishment, an employer is required to communicate the name and particulars of the industry or the establishment to the institution within thirty days, on this form.

Form PE-01 - After applicability of EOB Act on an industry or establishment, an employer is required to communicate the name and particulars of every insured person employed to the institution within thirty days, on this form.

Form PE-02 - An insured person may also communicate his name and other to the Institution on this form.

- On receipt of the requisite particulars in Forms PR-01 and PE-01 from an employer, the Institution shall register the name of the industry or establishment.
- The institution will issue a Certificate of Registration in Form PI-02 to the employer and to each insured person a Registration Card in Form PI-03.
- The institution may send the Registration Card in Form PI-03 to the employer for Delivery to the insured person to whom it relates.

2.2.5 Benefits

Four kinds of benefits are available for insured employees:

1) Old-Age Pension:

An insured person is entitled to a monthly old-age pension at the following rate:

Average monthly wages
----- x No. of yrs. Employment.

50

Conditions:

He is over 60 years of age (55 years for women)

He is over 55 years of age (50 years for women) if he is employed in the occupation of mining for at least 10 years immediately preceding to retirement,

Contributions to the institution were paid for at least 15 Years

Note: If an insured person has regularly contributed his portion of contribution to the institution, his right shall not be affected by default in payment of employer's share of contribution.

1) Reduced Pension:

If a person is retired before attaining the age of retirement, but after attaining the age of 55 years (50 years for women), he will be entitled to a reduced old-age pension, provided that he provides documentary evidence that the employer has a definite established retirement age of less than 60 years (55 years for women)

All the contributions were paid under the provisions of this Act. The old-age pension shall be reduced by one half per cent of the Old-Age Pension for each completed month by which the age falls short of sixty years (fifty-five years for women).

Reduced old-age pension will not be restored after attaining full age of retirement

2) Survivor's Pension:

If the insured person dies after he has completed at least 5 years of insurable employment, the surviving spouse, if any, shall be entitled to a life pension equal to the minimum pension.

If the insured person was entitled to old-age pension before he died, the surviving spouse shall be entitled to receive full pension, if they were married before the insured person reached minimum age prescribed for old-age pension.

If there is No Surviving Spouse:

Survivor's pension shall be paid to the minor children and if there are no minor children of deceased insured person, then the survivor's pension shall be paid to a surviving person, if any, for a period of five years from the death of insured person.

Minor Male Child:

He will be entitled to receive equal share of pension until he attains eighteen years of age.

Minor Female Child:

She will be entitled to receive equal share of pension until he attains eighteen years of age or gets married, whichever is earlier.

Parents:

If the surviving spouse dies within five years of death of the insured person and there are no minor children, survivor's pension shall be paid to the surviving parents of the deceased insured person for a period of five years from the death of said spouse.

- After cessation of pension because of age maturity, the pension of matured children will equally be distributed among the rest of the minor children of deceased insured person.

3) Invalidity:

Another than employment injury condition where insured person is permanently incapacitated to earn from his usual occupation more than one third of the normal rates of earning.

An insured person who sustains invalidity shall be entitled to an invalidity pension at the following rate

Average monthly wages

----- X No. of years of employment 50

Conditions:

Contribution in respect of him were paid for not less than fifteen years

Contributions in respect of him were paid for not less than five years since his entry into insurable employment and for not less than three years during the period of five years preceding the month in which he sustains invalidity

In either case, he is under sixty years of age, or fifty-five years in the case of women

4) Old Age Grants

An insured person is entitled to a lump sum old-age grant equal to his one month's average wage for every completed year of insurable employment.

Conditions:

He retires from insurable employment after attaining the age of 60 (55 for women)
Contributions to the institution were paid for less than fifteen years but not less than two years

2.2.6 Grievance Mechanism

Complaints & Disputes:

If any complaint is received or any question or dispute arises as to:

1. Whether a person is an insured person within the meaning of this Act
2. The number of wages of an insured person for the purposes of this Act
3. The amount of contribution payable by an employer in respect of an insured person
4. The person who is the employer in respect of an insured person entitlement to any benefit under this Act or as to the amount and duration
5. Any other matter in respect of any contribution or any benefit, or dues payable or recoverable under this Act

The matter shall be decided by the Institution, in such manner and within such time, as the regulations may provide and the Institution shall notify its decision to the person concerned in writing, stating therein the reason for its decision.

Appeals:

A person aggrieved by a decision of the Institution may appeal to the Board.

2.2.7 Taxation Aspects of PESSI & EOBI:

Both Contributions as Deductible Allowance While Computing Taxable Income:

Both the schemes qualify for 100% deduction for the amounts paid during the year. LexScripta is being reproduced here:

“Section 20. Deductions in computing income chargeable under the head “Income from Business (1) Subject to this Ordinance, in computing the income of a person chargeable to tax under the head “Income from Business” for a tax year, a deduction shall be allowed for any expenditure incurred by the person in the year wholly and exclusively for the purposes of business”

Tax Credits Associated with No. of Employees Registered with SS & EOBI:

(2) The tax credit under sub-section (1) for a tax year shall be equal to “two” percent of the tax payable for every fifty employees registered with The Employees Old Age Benefits Institution or the Employees Social Security Institutions of Provincial Governments during the tax year, subject to a maximum of ten percent of the tax payable.”

3. Worker Welfare Fund (WWF)

3.1 Background

Workers' Welfare Fund primarily labour related legislation. Historically, this was governed by federal statutes viz. The Workers' Welfare Fund Ordinance, 1971; and this become a labor law provincial matter.

3.2 The Punjab Workers Welfare Fund (Amendment) Act, 2025

Definition:

An Act to provide for the establishment of Punjab Workers Welfare Fund.

Extent and Commencement:

- i. It extends to whole of the Punjab.
- ii. It shall come into force at once.

Note: This Act was passed by Provincial Assembly of the Punjab on 20 November 2019; assented to by the Governor of the Punjab on 10 December 2019; and, was published in the Punjab Gazette (Extraordinary), dated: 13 December 2019, pp.2547-2553. Subsequently, the Act was amended by the Punjab Workers Welfare Fund (Amendment) Act, 2025 (Act XXXVIII of 2025).

3.3 Applicable on

Every establishment having the total income not less than rupees five hundred thousand in any year, shall be liable to pay to the **Punjab Workers Welfare Fund** in respect of that year, **a sum equal to two percent (2%) of its total income**, to be assessed and collected by the **Punjab Employees Social Security Institution (PESSI)** in accordance with the Act.

Whereas the word “establishment” has the meanings as assigned to it in section 2 of the Punjab industrial Relations Act 2010 (XIX of 2010) which means following.

“establishment” means any office, firm, factory, society, undertaking, company, shop, premises or enterprise in the Punjab, which employs workmen directly or through a contractor for the purpose of carrying on any business or industry and includes all its departments and branches, whether situated in the same place or in different places having a common balance sheet and except in section 25 includes a collective bargaining unit, if any, constituted in any establishment or group of establishments;

“Total income” means:

- i. Where return of income is required to be filed under the Income Tax Ordinance, 2001, the profit before taxation or provision for taxation as per accounts or the declared income as per the return of income, whichever is higher; and
- ii. Where return of income is not required to be filed under the Income Tax Ordinance, 2001, the profit before taxation or provision for taxation as per accounts or four percent 4% of the receipt as per the statement filed under section 115 of the Income Tax Ordinance, 2001, whichever is higher.

3.4 WWF Computation:

- i. Where the income is taxable under **NTR-Normal Tax Regime:**
2% of Accounting Profit before tax as per accounts OR 2% of declared income as per income tax return (whichever is higher).
- ii. Where the income is taxable under **FTR-Final Tax Regime:**
2% of Accounting Profit before tax as per accounts OR 4% of total Receipts as per statement filled u/s 115 (whichever is higher).

3.5 Payment Deadline & its Benefit:

Within thirty days from the date of closing of accounts.

- i. Where assessment of income under the Act for any year is not finally made than pay the amount on the basis of average of income assessed during the preceding two years.
- ii. Moreover, establishment shall on or before the specified date for filing of returns of income or a statement under the Income Tax Ordinance, 2001 shall pay the amount due and shall furnish the proof of payment along with a copy of income tax return to the Authority.

Benefit:

Allow ability of payment as an expense for income tax purpose i.e. The payment made by an establishment to the Fund under this section shall be treated as expenditure for purposes of assessment of income tax.

Penalty:

- i. Liable to pay an amount equal to fifteen percent per annum of the amount due from it in addition to the amount payable by such establishment. OR
- ii. The amount payable to the extent of previous five tax or income years.

3.6 Burden of Liability on Certain Persons:

Any liability imposed on an establishment under the Act shall be deemed to be the liability of the person who is an employer in relation to an establishment.

4. Workers' Profit Participation Fund (WPPF)

4.1 Background

Workers' Profit Participation Fund is primarily a labour-related matter that was historically governed at the federal level under the Companies Profits (Workers' Participation) Act, 1968. Following the Eighteenth Amendment in 2010 and the omission of the Concurrent Legislative List, labour welfare matters now fall within provincial legislative competence.

4.2 Companies Profits (Workers' Participation) Act, 1968 (XII of 1968)

Definition:

An Act to provide for Participation of workers in the profits of companies

Whereas it is expedient to provide for participation of workers in the profits of companies and for matters ancillary thereto

Whereas "Worker" in relation to a company means an employee of the (including employed by or through the contractors) who falls within the definition of the workers as defined in clause (xxx) of section 2 of the industrial Relations Ordinance, 2002 (XCI of 2002) and has been working for or in the company for a period of not less than 6 months.

Extent and Commencement:

- i. It extends to the whole of Pakistan.
- ii. It shall come into force at once.

4.3 Applicable on

The scheme applies to all companies engaged in industrial undertakings which satisfy any one of the following conditions and to such other companies as the [Federal Government] may, by notification in the official Gazette, specify in this behalf, namely:

- i. The number of workers employed by the company at any time during a year is [50] or more.
- ii. The paid-up capital of the company as on the last day of its accounting year is Rs. 20 lakhs or more.
- iii. The value of the fixed assets of the company (at cost) as on the last day of the accounting year is Rs. 40 lakhs or more.

[Provide that for the companies established on or after 1st day of July 2006,

(a) Clause (ii) shall have effect as if for the figure and word "20 lacs" the figure and word "5 million" were substituted; and

(b) Clause (iii) shall have effect as if for the figure and word "40 lakhs" the figure and word "20 million" were substituted.]

INDUSTRIAL UNDERTAKING MEANING:

"Industrial undertaking" means an institution, organization, enterprise or establishment which involves the use of electrical, mechanical, thermal, nuclear or any other form of energy transmitted mechanically and not generated by human or animal agency and which is engaged in any one or more of the following operations, namely:

- (i) the subjection of goods or materials to any manufacturing, assembly, finishing or other artificial or natural process, which changes their original condition or adds to their value;
- (ii) ship-building
- (iii) The transformation, generation, conversion, transmission or distribution of electrical energy, including hydraulic power and
- (iv) the working of a mine, oil-well or any other source of mineral deposit, including blending, refining and purification of oils and gases; and includes companies engaged in the marketing and distribution of gas or oil or in the carriage of men or goods by sea or air and any other institution, organization, enterprise or establishment which the Federal Government] may, by notification in the official Gazette, declare to be an industrial undertaking for the purposes of this scheme;

4.4 WPPF Contribution:

Rate of contribution:

Rate is 5% of the profits (as defined) must be paid over to the Fund within 9 months of the close of each accounting year. Furthermore, where the Company utilizes the funds allocable to it, it is required to pay interest to the Fund.

In accordance with the Punjab Gazette Notifications dated 29 May 2025, issued under:

The Companies Profits (Workers' Participation) (Amendment) Act, 2025

The **Punjab Employees Social Security Institution (PESSI)** has been entrusted with the authority to **collect** the following contributions:

Outstanding five per cent (5%) of companies' profits recoverable under section 5(5) of the Companies Profits (Workers' Participation) Act, 1968.

Employee's own contribution:

A worker may voluntarily choose to contribute a part of his wages, cash, bonus, dividend or interest to the Fund. For each unit of contribution, he shall receive credit for 1-1/4 units. The contribution made by a worker in any one year of account **shall exceed ten per cent (10%) of his annual wages** for that year.

Payment of leftover from annual allocation of WPPF:

Any amount left out of the annual allocation after the units have been allocated to the workers eligible to participate in the Fund is required to be transferred to the Workers' Welfare Fund.

4.5 Management of the fund:

As soon as may be [but not later than two months], after the establishment by a company of a Fund under section 3, there shall be constituted a Board of Trustees consisting of the following trustees, namely: -

- (a) Two persons elected by the workers of the company from amongst themselves; and
- (b) Two persons nominated by the management of the company of whom at least one shall be a person from the accounts branch of the company.

The person's holding office as trustees shall select for one year a person to be the Chairman of the Board alternatively from amongst the trustees elected under clause (a) of sub-section (I) and those nominated under clause (b) of that sub-section, the first Chairman being from amongst the later.

4.6 Investment of the fund:

1. The amount allocated or accruing to the Fund shall be available to the company for its business operations. The company may, however, request the Board to utilize the amount in the Fund for investment under sub-paragraph (7) and the Board may decide to so invest the amount.
2. The company shall pay to the Fund in respect of the amount in the Fund available to it for its business operations as aforesaid interest at the rate **2.5% percent** above the bank rate or **75% percent** of the rate at which dividend is declared on its ordinary shares, whichever is higher.

Worker:

The Fund to be established is for workers and the term "worker" means – "Worker" in relation to a company means an employee of the company whose average monthly emoluments computed in the manner set forth in the Scheme do not exceed five thousand rupees per month and who has been in the employment of the company for a period of not less than six months;

Establishment of Fund:

The WPPF Act requires every company qualifying under Paragraph 1 of the Scheme to establish a Fund in accordance with section 3 of the WPPF Act.

Eligibility to benefits of scheme:

All workers shall be eligible to the benefits of the scheme and to participate in the Fund. However, a worker not completing six months of employment with the company during a year of account shall not participate in the Fund in respect of that year.

4.7 WPPF Allocation:

□ **Distribution of benefits to workers:** The share of a worker in the annual allocation to the Fund shall be expressed in units or fractions of units (worked out to two places of decimal) of the face value of Rs. 10 determined in the following manner, namely:

(a) The number of available units shall be so divided into three parts for the three categories of workers mentioned below that a worker in the first of those categories gets four units for each two units that a worker in the second of those categories gets or for each one unit that a worker in the last of these categories gets:

(b) 100 per cent of the annual income of the Fund, including capital gains realized, shall be distributed each year to workers in proportion to their units of entitlement.

Categories

- i. Workers drawing average minimum monthly wages not exceeding the minimum wages fixed by Government under the Minimum Wages Ordinance, 1961 (Ordinance No. XXXIX of 1961) from time to time.
- ii. Workers drawing average monthly wages exceeding the minimum wages as fixed by Government from time to time under the Minimum Wages Ordinance, 1961 (Ordinance No. XXXIX of 1961) but not exceeding two and one-half times of such wages.
- iii. Workers drawing average monthly wages exceeding two and one-half times of minimum wages.

4.8 Other Requirements:

Working and location of the Board of Trustees

The office of the Board of Trustees shall be located at the factory premises or, if there is more than one factory run by the company, at the registered head office of the company.

Audit of the Fund accounts

The Fund accounts shall be audited annually at the company's expense in the same manner as the accounts of the company are audited.

Note: All expenses of the Board, including the cost of maintaining accounts, shall be borne by the company.

Annexure II - Illustration of the Methods of Computation

If the profits of the company during the previous year are Rs. 4 lacs, its contribution to the Fund @ 5% shall be Rs. 20,000 i.e. 2,000 units each unit price is Rs.10 which shall be divided amongst workers as follows:

1	Number of workers drawing average monthly wages not exceeding Rs. 17,500	93
2	Number of workers drawing wages exceeding Rs. 17,500 but not exceeding Rs. 35,000	37
3	Number of workers drawing average wage exceeding Rs. 17,500 but not exceeding Rs. 43,750	15
4	Units to be divided, on the basis of $93 \times 4 + 37 \times 2 + 15 \times 1$	461

Each worker of 1st category will get	$2000/461 \times 4 = 17$	17×93	1,581
Each worker of 2nd category will get	$2000/461 \times 2 = 09$	09×37	333
Each worker of 3rd category will get	$2000/461 \times 1 = 04$	04×15	60
Total Allocated to workers from 2000 units			(1,974)
Remaining units' amount to be transfer to WWF-Worker welfare Fund			26

4.9 Benefits of WPPF:

- **Fiscal concession to the Companies:** All companies to whom the scheme applies shall be allowed the allocation made to the scheme as a deduction to arrive at the taxable income.
- **Tax treatment of the income of the Fund:** The income of the Fund including capital gains shall be exempt from income-tax.
- **Tax treatment of the income of the workers:** All sums paid out by the Fund shall be exempt from income-tax in the hand of the workers.

4.10 Penalty on Failure to Comply

Where a company to which the scheme applies fails to comply with any of the provisions of this Act or the scheme, every director, manager or other officer responsible for the management of the affairs of the company, shall, if the Federal Government by order so directs, pay by way of penalty a sum which may extend to 5000 rupees and, in case of a continuing failure, a further sum which may extend to one thousand rupees for every day after the first during which the failure continues.